

CITY OF ALTO, TEXAS
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

CITY OF ALTO, TEXAS
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Alto, Texas
Alto, Texas

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Alto, Texas (City), as of and for the year ended September 30, 2020, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Alto, Texas, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance 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, budgetary comparison information and the required GASB 68 and GASB 75 schedules on pages 5–10 and pages 42-46 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2021, on our consideration of the City of Alto, Texas's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Alto, Texas's 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 of Alto, Texas's internal control over financial reporting and compliance.

Murrey Paschall & Caperton, P.C.
Forney, Texas
March 26, 2021

CITY OF ALTO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

Within this section of the City of Alto, Texas annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities by \$4,088,311 (Governmental and Proprietary Funds) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,243,230.
- Governmental net assets are comprised of the following:
 - 1) Capital assets net of related debt of \$3,435,791.
 - 2) Restricted assets of \$111,567.
 - 3) Unrestricted net assets of \$541,034 represent the portion available to maintain the City's continuing obligations to citizens.
- The City's governmental fund reported total ending fund balance of \$230,291 this year. This compares to the prior year ending fund balance of \$247,531, showing a decrease of (\$17,240) during the current year.
- The City's liabilities are related to accounts payable, refundable meter deposits, accrued expenses, pensions and long-term debt.
- The City implemented GASB Statement No. 68 during 2015 which requires the City to record its Net Pension Liability (\$31,916). The City also implemented GASB Statement No. 75 during 2018 which requires the City to record its OPEB Liability (\$53,780).

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the financial statements.

Government-Wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the citywide statement of financial position presenting information that includes all the City's assets and liabilities, with the difference reported as *net assets*. Over time, the increases or decreases of net assets may serve as

CITY OF ALTO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and fees and on occasion grants from state and federal sources. Governmental activities include general government, public safety, public services, and culture and recreation. Business-type activities typically include water utilities, solid waste management, storm water drainage, golf courses, fairgrounds and stadium, ground transportation, and parking. Fiduciary activities such as assets that are held in a trustee or agency capacity are not included in government-wide statements since these assets are not available to fund City programs. The City currently has no fiduciary activities.

The City's financial reporting includes the funds of the City (primary government). The governmental activities include the City's basic services such as general administration. Property tax, Sales tax and Franchise tax finance most of these activities.

The government-wide financial statements are presented on pages 11-12 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City taken as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The City of Alto, Texas has a governmental fund, the General Fund, a proprietary fund for business type activities, utilities, and a component unit economic development corporation, EDC.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of expendable resources during the year and balances of expendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of the expendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between the two perspectives.

CITY OF ALTO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

The basic governmental fund financial statements are presented on pages 13-16 of this report.

Proprietary funds are used to report the same functions presented as business-type funds to account for its utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. See reporting on pages 17-19 of this report.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The statement shows multiple columns: 1) the original and final budget as amended by the Council (if any changes); 2) the actual resources, charges to appropriations, and ending balances in the General Fund and 3) the difference or variance between the final budget and the actual resources and charges.

The budgetary comparison statement can be found on page 42 of this report.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements on page 22 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As year-to year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

Comparative data is accumulated and presented to assist analysis. The City's net assets at fiscal year-end are \$4,088,311. This is a (\$154,919) decrease from last year's net assets of \$4,243,230.

The largest portion of the City's Net Assets reflects its investments in capital assets (e.g. land, building, machinery and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets of \$541,034 may be used to meet the government's ongoing obligation to citizens and creditors.

The tables on the following page provide a summary of the City's Net Assets and Changes in Net Assets compared to the prior year balances.

CITY OF ALTO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

	Governmental Activities		Business-type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Current assets	\$ 291,147	\$ 288,943	\$ 550,120	\$ 646,920	\$ 841,267	\$ 935,863
Capital and other long term assets	588,368	650,508	3,086,964	3,121,281	3,675,332	3,771,789
Total assets and deferred outflows	<u>879,515</u>	<u>939,451</u>	<u>3,637,084</u>	<u>3,768,201</u>	<u>4,516,599</u>	<u>4,707,652</u>
Long-term debt outstanding	22,477	34,448	28,615	13,972	51,092	48,420
Other liabilities and deferred inflows	156,362	170,573	220,834	245,429	377,196	416,002
Total liabilities and deferred inflows	<u>178,839</u>	<u>205,021</u>	<u>249,449</u>	<u>259,401</u>	<u>428,288</u>	<u>464,422</u>
Net assets:						
Invested in capital assets, net of debt	519,713	535,725	2,916,078	2,961,476	3,435,791	3,497,201
Restricted	-	-	111,486	111,567	111,486	111,567
Unrestricted (deficit)	180,963	198,705	360,071	435,757	541,034	634,462
Total net assets	<u>\$ 700,675</u>	<u>\$ 734,430</u>	<u>\$ 3,387,635</u>	<u>\$ 3,508,800</u>	<u>\$ 4,088,311</u>	<u>\$ 4,243,230</u>
	Governmental Activities		Business-type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 441,693	\$ 479,650	\$ 1,117,517	\$ 1,205,738	\$ 1,559,210	\$ 1,685,388
Interest income	-	-	1,164	649	1,164	649
Grant income (net)	-	-	8,398	257,477	8,398	257,477
General revenues:						
Property taxes	133,414	119,476	-	-	133,414	119,476
Franchise fees	34,367	38,077	-	-	34,367	38,077
Sales and use taxes	115,317	113,291	-	-	115,317	113,291
Miscellaneous income	31,512	28,430	-	-	31,512	28,430
Total revenues	<u>756,303</u>	<u>778,924</u>	<u>1,127,079</u>	<u>1,463,864</u>	<u>1,883,382</u>	<u>2,242,788</u>
Program expenses						
General government	345,157	366,338	-	-	345,157	366,338
Police and Municipal Court	555,232	538,758	-	-	555,232	538,758
Public safety - Fire / EMS	63,543	75,182	-	-	63,543	75,182
Public works - Streets / Sanitation	222,021	195,114	-	-	222,021	195,114
Utilities	-	-	852,347	835,161	852,347	835,161
Total expenses	<u>1,185,954</u>	<u>1,175,392</u>	<u>852,347</u>	<u>835,161</u>	<u>2,038,301</u>	<u>2,010,553</u>
Net before transfers	(429,651)	(396,468)	274,731	628,703	(154,919)	232,235
Transfers	395,896	464,885	(395,896)	(464,885)	-	-
Prior Period Adjustment	-	-	-	-	-	-
Change in net assets	<u>\$ (33,755)</u>	<u>\$ 68,417</u>	<u>\$ (121,165)</u>	<u>\$ 163,818</u>	<u>\$ (154,919)</u>	<u>\$ 232,235</u>

CITY OF ALTO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of expendable resources. Governmental funds reported ending fund balances of \$230,291, which is unassigned indicating a surplus for continuing City service requirements.

Major Governmental Funds

General Fund - Taxes are collected by Cherokee County and remitted to Alto. Other revenues that are received are from such miscellaneous sources as state sales tax sharing, franchise taxes, etc. The basic expenses of a governmental nature involve the maintaining of a city hall and the associated expenses of the city government, such as police and Court functions.

Proprietary Fund - The City has component utility units: the water, sewer, and garbage system. Although a part of the city, these operate primarily as businesses selling the services provided to the public. The business-type activities decreased the City's net assets by (\$121,165) after transfers of \$395,896 to the General Governmental activities.

CAPITAL ASSETS

The City's investment in capital assets for the city as a whole, net of depreciation, as of September 30, 2020 amounted to \$3,517,046. These primarily include the City Hall Building, land, machinery, vehicles, and infrastructure assets.

At the end of the current physical year, the City had total long-term debt outstanding of \$81,254.

Additional information regarding the City of Alto's capital assets can be found in Note IV on page 28 and long term debt on page 29.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget and proprietary fund complied with financial policies approved by the City Council and maintained core services. The city continues to keep expenses at a minimum without effecting city services. This surplus will put the city on a more solid financial footing. A locally responsible budget has also helped create a surplus.

Additional budgetary comparisons are found on page 42 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET CONSIDERATIONS

During the upcoming year the city expects average growth and relatively consistent income and expense items per the FY2021 budget.

CITY OF ALTO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, at the City of Alto, 404 West San Antonio, Alto, TX 75925.

CITY OF ALTO, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2020

	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash & equivalents	\$ 247,188	\$ 459,804	\$ 706,992	\$ 141,491
Receivables (net)	43,959	90,140	134,099	8,767
Inventory	-	176	176	-
Total current assets	<u>291,147</u>	<u>550,120</u>	<u>841,267</u>	<u>150,258</u>
Capital assets				
Capital assets	1,481,367	9,798,501	11,279,868	251,541
Less accumulated depreciation	<u>(927,163)</u>	<u>(6,835,659)</u>	<u>(7,762,822)</u>	<u>(29,215)</u>
Total fixed assets	554,204	2,962,842	3,517,046	222,326
Other assets				
Restricted cash	-	111,486	111,486	-
Deferred outflows pensions and OPEB	34,164	12,636	46,800	-
Total other assets and def outflows	<u>34,164</u>	<u>124,122</u>	<u>158,286</u>	<u>-</u>
Total assets and deferred outflows	<u>879,515</u>	<u>3,637,084</u>	<u>4,516,599</u>	<u>372,584</u>
Liabilities				
Accounts payable and accrued liabilities	51,878	14,613	66,491	2,148
Refundable meter deposits	-	151,547	151,547	-
Net pension liability	23,299	8,617	31,916	-
Total OPEB liability	39,259	14,521	53,780	-
Deferred inflows pensions and OPEB	21,255	9,313	30,568	-
Accrued vacation	8,657	4,074	12,731	-
Current - notes payable	12,014	18,149	30,163	-
Long-term - notes payable	22,477	28,615	51,092	-
Total liabilities and deferred inflows	<u>178,839</u>	<u>249,449</u>	<u>428,288</u>	<u>2,148</u>
Net assets				
Investment in capital assets, net	519,713	2,916,078	3,435,791	-
Reserved	-	111,486	111,486	-
Unrestricted	180,963	360,071	541,034	370,436
Total net assets	<u>\$ 700,675</u>	<u>\$ 3,387,635</u>	<u>\$4,088,311</u>	<u>\$ 370,436</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Activities	Expenses	Revenues: Charges for Service	Net (Expense) / Revenue	Component Unit
Governmental:				
General government	\$ 344,721	\$ -	\$ (344,721)	\$ -
Police	302,810	-	(302,810)	-
Code enforcement	72,535	402	(72,133)	-
Fire	21,573	13,404	(8,169)	-
Ambulance and EMS	41,970	22,746	(19,224)	-
Public works - Street	69,015	-	(69,015)	-
Public works - Sanitation	153,006	174,799	21,793	-
Municipal court	178,764	227,637	48,873	-
Court security	-	1,156	1,156	-
Court technology	1,123	1,549	426	-
Library	436	-	(436)	-
Total governmental activities	<u>1,185,954</u>	<u>441,693</u>	<u>(744,261)</u>	<u>-</u>
Business type:				
Utility - Gas	357,601	595,246	237,645	-
Utility - Water and sewer	485,866	522,270	36,404	-
Utility - Grant	8,880	8,398	(482)	-
Total business-type activities	<u>852,347</u>	<u>1,125,915</u>	<u>273,567</u>	<u>-</u>
Component Unit:				
Alto Economic Development	54,873	-	-	54,873
Total component unit	<u>54,873</u>	<u>-</u>	<u>-</u>	<u>54,873</u>
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component</u>
	<u>Activities</u>	<u>Activities</u>		<u>Unit</u>
Change in net assets:				
Net (expense) / revenue	(744,261)	273,567	(470,693)	(54,873)
Property tax	133,414	-	133,414	-
Sales & use tax	115,317	-	115,317	57,781
Franchise tax	34,367	-	34,367	-
Investment income	-	1,164	1,164	230
Miscellaneous income	31,512	-	31,512	233,800
Transfers	395,896	(395,896)	-	-
Change in net assets	<u>(33,755)</u>	<u>(121,165)</u>	<u>(154,919)</u>	<u>236,939</u>
Net Assets: Beginning	734,430	3,508,800	4,243,230	133,497
Prior Period Adjustment				-
Net Assets: Ending	<u>\$ 700,675</u>	<u>\$ 3,387,635</u>	<u>\$ 4,088,311</u>	<u>\$ 370,436</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	General Fund	Total Governmental Funds
Assets		
Cash & equivalents	\$ 247,188	\$ 247,188
Receivables (net)	43,959	43,959
Total Current Assets	\$ 291,147	\$ 291,147
Liabilities		
Accounts payable and accrued liabilities	\$ 60,856	\$ 60,856
Total Liabilities	60,856	60,856
Fund Balances		
Unrestricted	230,291	230,291
Total Fund Balances	230,291	230,291
Total Liabilities and Fund Balances	\$ 291,147	\$ 291,147

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2020

Total Fund Balance - Total Governmental Funds	\$ 230,291
Amounts reported for government assets in the Statement of Net Assets are different because:	
Capital assets, net, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	554,204
Net other post employment benefit obligation in governmental activities does not require current financial resources and therefore is not reported in the governmental funds balance sheet.	34,164
Long-term liabilities including bonds payable, notes payable, total OPEB, and net pension liability, are not due in the current period and therefore, are not reported in the funds.	<u>(117,983)</u>
Net Assets of Governmental Activities	<u><u>\$ 700,675</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Property taxes	\$ 133,414	\$ 133,414
Franchise fees	34,367	34,367
Sales tax collected	173,098	173,098
Fines and fees - Police and Municipal Court	230,744	230,744
Charges for service - Fire and EMS	36,150	36,150
Charges for service - Sanitation	174,799	174,799
Charges for service - Library	-	-
Restitution	4,760	4,760
Miscellaneous reimbursement and grants	26,752	26,752
New debt proceeds	-	-
Total Revenues	<u>814,084</u>	<u>814,084</u>
Expenditures		
General government	308,303	308,303
Police	302,810	302,810
Code enforcement	72,535	72,535
Fire	21,573	21,573
Ambulance and EMS	41,970	41,970
Public works - Street	68,632	68,632
Public works - Sanitation	153,006	153,006
Public services and operations - Municipal Court	179,887	179,887
Library	436	436
Sales tax paid to EDC	58,164	58,164
Capital outlay	5,000	5,000
Principal retirement / Debt service	14,904	14,904
Total Expenditures	<u>1,227,220</u>	<u>1,227,220</u>
Other Financing Sources		
Operating Transfers In / (Out)	<u>395,896</u>	<u>395,896</u>
Total Expenditures	<u>395,896</u>	<u>395,896</u>
Net Change in Fund Balances	(17,240)	(17,240)
Fund Balances: Beginning	<u>247,531</u>	<u>247,531</u>
Fund Balances: Ending	<u>\$ 230,291</u>	<u>\$ 230,291</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Net Change in Fund Balance - Total Governmental Funds \$ (17,240)

Amounts reported for government activities
in the Statement of Activities are
different because:

Governmental funds report capital outlay as expenditures
However, in the government-wide statement of
activities and changes in net assets, the cost of
those assets is allocated over their estimated useful
lives as depreciation expense. This is the amount
of capital assets recorded in the current period.
(net of any new debt proceeds) 5,000

Depreciation expense on capital assets is reported in
the government-wide statement of activities and
changes in net assets, but they do not require
the use of current financial resources. Therefore,
depreciation expense is not reported as an expenditure
in governmental funds. (35,915)

Government funds report all payments to pension
benefits as expenditures. However in the government-wide
statement of activities the pension expense is actuarially
determined. (Paid to TMRS - Actuary Expense) (503)

Governmental funds report repayment of debt
principal as expenditures. However, in the
government-wide statements this repayment
reduces long-term liabilities. 14,904

Change Net Assets of Governmental Activities \$ (33,755)

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2020

	Business-Type Activities (Utility Fund)
Assets	
Cash & equivalents	\$ 459,804
Receivables (net)	90,140
Inventory & prepaids	176
Total current assets	550,120
Capital assets	
Capital assets	9,798,501
Less accumulated depreciation	(6,835,659)
Total fixed assets	2,962,842
Other assets	
Restricted Cash	111,486
Deferred outflows pensions and OPEB	12,636
Total other assets and deferred outflows	124,122
Total Assets and Deferred Outflows	\$ 3,637,084
Liabilities	
Accounts payable and accrued liabilities	\$ 14,613
Refundable meter deposits	151,547
Net pension liability	8,617
Total OPEB liability	14,521
Deferred inflows pensions and OPEB	9,313
Accrued vacation	4,074
Current - notes payable	18,149
Long-term - notes payable	28,615
Total Liabilities and Deferred Inflows	249,449
Net assets	
Investment in capital assets, net	2,916,078
Reserved	111,486
Unrestricted	360,071
Total net assets	3,387,635
Total Liabilities and Net Assets	\$ 3,637,084

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities (Utility Operations Fund)
Revenues	
Gas	\$ 595,246
Water	352,797
Sewer	169,473
Total Revenues	1,117,517
Expenses	
Personnel	187,928
Supplies & materials	233,016
Repairs & maintenance	65,697
Contract & Outside services	173,153
Depreciation	160,117
Miscellaneous	22,843
Total Expenses	842,754
Net income from operations	274,763
Other	
Grant income	8,398
Grant expense	(8,880)
Interest income	1,164
Interest expense	(714)
Total other	(32)
Net Income	274,731
Transfers In / (Out)	(395,896)
Change in Net Assets	(121,165)
Net Assets: Beginning	3,508,800
Net Assets: Ending	\$ 3,387,635

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities (Utility Operations Fund)
Cash flows from operating activities:	
Receipts from customers and users	\$ 1,108,683
Payments to suppliers	(527,372)
Payments to employees	(187,928)
Net cash provided by operating activities	393,383
Cash flows from noncapital financing activities:	
Transfers In (Out) from Other Funds	(395,896)
Net cash provided (used) by noncapital financing activities	(395,896)
Cash flows from capital and related financing activities:	
Principal payments on longterm debt	(14,287)
New grant proceeds	8,398
Grant expense	(8,880)
New loan proceeds	33,050
Interest expense	(714)
Interest income	1,164
Acquisition and construction of capital assets	(133,401)
Net cash provided (used) by capital and related financing activities	(114,669)
Net increase (decrease) in cash and cash equivalents	(117,183)
Cash and cash equivalents at beginning of year	576,987
Cash and cash equivalents at end of year	\$ 459,804
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 274,763
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	160,117
(Increase) decrease in accounts receivable	(20,383)
(Increase) decrease in deferred outflows	11,549
Increase (decrease) in liabilities	(32,663)
Total adjustments	118,619
Net cash provided by operating activities	\$ 393,383

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
BALANCE SHEET - COMPONENT UNITS
ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2020

	ALTO EDC
Assets	
Cash & equivalents	\$ 141,491
Receivables (net)	8,767
Total Current Assets	150,258
Capital assets	
Capital assets	251,541
Less accumulated depreciation	(29,215)
Total Capital Assets	222,326
Total Assets	\$ 372,584
Liabilities	
Accounts payable	\$ 2,148
Total Liabilities	2,148
Fund Balances	
Unrestricted	370,436
Total Fund Balances	370,436
Total Liabilities and Fund Balances	\$ 372,584

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - COMPONENT UNITS
ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	ALTO EDC
Revenues	
Sales taxes	\$ 57,781
Interest income	230
Direct public support and grants	233,800
Total Revenues	291,812
 Expenditures	
Payroll expense	28,588
Contract fees	4,359
Dues and subscriptions	717
Facilities	11,999
Operations	7,912
Miscellaneous other	1,298
Total Expenditures	54,873
Net Change in Fund Balances	236,939
Fund Balances: Beginning	133,497
Prior period adjustment (depreciation)	-
Fund Balances: Ending	\$ 370,436

The accompanying notes are an integral part of the financial statements.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the City of Alto, Texas (City) are discussed in subsequent sections of this Note. The remaining notes are organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended September 30, 2020.

B. Financial Reporting Entity

The City of Alto, Texas, (City) was incorporated June 1909. The City operates under Section 4, Article XI, of the Texas constitution as a general law city in which the citizens elect the mayor and council members at large.

Based on the primary accountability for fiscal matter, authority to make decisions, appoint administrators and managers, and significantly influence operations, the City meets the definition of a "Financial Reporting Entity" as defined by GASB statement 14.

Alto Economic Development Corporation, Inc. (the Corporation) has been included in the reporting entity as a discretely presented component unit. The Corporation was approved in 2008 by the voters and is a governmental entity that promotes the creation of new and expanded industry and manufacturing activity with the City. The Corporation's board of directors is appointed by and serves at the discretion of City Council. City Council approval is required for the annual budget and the issuance of any debt. In the event of dissolution, any assets of the Corporation will be transferred to the City.

The accompanying financial statements present the City's primary government.

C. Basis of Presentation

Government-Wide and 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 individual fund of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Government-Wide Financial Statements

The government-wide financial statements include the statements of net assets and the statement of activities. These statements report financial information of the City as a whole. The government has a Proprietary Fund other than the General Fund and one component unit. Therefore, the statements distinguish between governmental and business type activities, one being generally supported by taxes and City general revenues, while the other is generally financed with fees charged to external customers.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities that captures the expenses and program revenues associated with a distinct functional activity. Program revenue includes charges for services, which report fees and other charges to users of the City's services (specifically permit fees). Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental funds and proprietary funds.

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting thus relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statement uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred. However, expenditures related to claims and judgments are recorded only when payment is due and payable shortly after year end as required by GASB Interpretations No. 6.

Program revenues as reported in the Statement of Activities include 1) charges to customers for goods, services, or privileges provided and 2) capital grants. Other revenues received by

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

the City that are internally dedicated by their purpose are reported as general revenues rather than program revenues. In this respect, all tax revenues are included in general revenues.

Sales tax, property tax, and franchise tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. License and permits, charges for services, and miscellaneous revenues are recorded as revenues when received in cash, as the related receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements are used as guidance.

Allocation of indirect expenses: The City currently has no indirect expenses.

Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

E. Financial Statement Amounts

Cash and Equivalents – The City’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Restricted Assets – Restricted assets include cash and investments of the proprietary funds that are legally restricted to their use. The primary restricted assets are related to debt retirement, renewal and replacement, and constructions activity of the Water and Sewer enterprise fund.

Receivables – Account receivables are shown net with an allowance and customer unapplied credits totaling (\$-) General and Utility fund. Property taxes levied on October 1 are recorded as deferred revenue and then recognized as revenue during the year as the taxes are actually received.

Inventories and prepaid items – Consist of utility supplies and parts purchased near year-end and is stated at cost. These parts are not inventory as defined by generally accepted accounting principles (ARB 43, ch 4, par2), therefore audit procedures which are normally applied to inventory, were not performed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the governmental and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest had not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over five years of useful life. Infrastructure assets capitalized have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Building Improvements	15-20 years
Infrastructure	10-50 years
Machinery and Equipment	5-15 years

Impairment of Long-lived Assets – the City reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset’s carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of September 30, 2020, no impairment of long-lived assets is necessary.

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 premium or discount as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the related bond premiums or discount.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Deferred outflows related to pensions, which arise only under an accrual basis of accounting, is reported only in the government-wide and proprietary statements of net position. This amount is deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under an accrual basis of accounting that qualifies for reporting in this category. This amount is deferred and amortized over the actuarial determined recognition period.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

Fund Equity – GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – includes the portion of net resources that cannot be spent because of their forms (i.e., inventory, long-term debt, or prepaid items) or because they must remain intact such as the principal of an endowment.
- *Restricted fund balance* – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e., externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – includes the portion of net resources on which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* – includes the portion of net resources for which an intended use has been established by the City Council or the City official authorized to do so by the City Council. Assignment of fund balance is much less formal than commitments and does not require formal action for their imposition or removal.
- *Unassigned fund balance* – includes the amounts in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first and then unrestricted resources as needed.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE II. COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

- In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

Deficit Fund Balance or Fund Net Position of Individual Funds

- Following are funds having deficit fund balances or net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None Reported	Not applicable

Budgets and Budgetary Accounting

- The Texas Uniform Budget Law requires each mayor or city manager to prepare a budget each year to cover all the expenditures of the municipality for the succeeding year. The budget should be filed with the municipal clerk at least 30 days prior to the setting of a tax levy by the city. Not less than 15 days prior to the levying of taxes a public hearing should be held, after being duly advertised. After this the Council should adopt the budget. The City complied with state requirements.

NOTE III. DEPOSITS AND INVESTMENTS

The City’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City’s agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

- Cash Deposits – At September 30, 2020, the carrying amount of the City’s deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$848,855. The City’s cash deposits at September 30, 2020 and during the year ended September 30, 2020 were entirely covered by FDIC insurance and pledged securities.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE IV. CAPITAL ASSETS

The following tables provide a summary of changes in capital assets:

Capital Assets Activity - Governmental

	<u>09/30/19</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/20</u>
Capital Assets				
Land	\$ 238,500	\$ -	\$ -	\$ 238,500
Buildings and Improvements	594,064	5,000	-	599,064
Vehicles and Equipment	643,803	-	-	643,803
Construction in Progress	-	-	-	-
Total Depreciable:	<u>1,476,367</u>	<u>5,000</u>	<u>-</u>	<u>1,481,367</u>
Less Accumulated Depreciation	(891,248)	(35,915)	-	(927,163)
Total Capital Assets	<u>\$ 585,119</u>	<u>\$ (30,915)</u>	<u>\$ -</u>	<u>\$ 554,204</u>

*** Additions to fixed assets in 2020 primarily consisted of improvements to the Library.*

Capital Assets Activity - Business Type

	<u>09/30/19</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/20</u>
Capital Assets				
Land	\$ 141,611	\$ -	\$ -	\$ 141,611
Buildings	35,369	-	-	35,369
Utility System	8,749,937	70,080	-	8,820,017
Utility Equipment	734,154	67,350	-	801,504
Construction in Progress	-	-	-	-
Total Depreciable:	<u>9,661,071</u>	<u>137,430</u>	<u>-</u>	<u>9,798,501</u>
Less Accumulated Depreciation	(6,675,542)	(160,117)	-	(6,835,659)
Total Capital Assets	<u>\$ 2,985,529</u>	<u>\$ (22,687)</u>	<u>\$ -</u>	<u>\$ 2,962,842</u>

*** Additions to fixed assets in 2020 primarily consisted of a new utility truck, a new generator, new gas meters and system improvements to the gas and water infrastructure.*

CITY OF ALTO, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2020

NOTE V. LONG-TERM OBLIGATIONS

Government-Type Activities

In October 2018, the City borrowed from Commercial Bank of Texas for the purchase of a 2017 Ford Interceptor police vehicle. The loan amount was \$29,550 and bears interest at the rate of 3.25%. Payments are due in 48 monthly payments of \$657.32. Maturity October 2022.

In September 2019, the City borrowed from Commercial Bank of Texas for the purchase of a new code enforcement vehicle. The loan amount was \$23,554 and bears interest at the rate of 4.2%. Payments are due in 60 monthly payments of \$435.93. Maturity September 2024.

Principal and interest payments projected for the following five years:

	<u>Principal</u>	<u>Interest</u>
2021	\$ 12,014	\$ 1,105
2022	12,449	664
2023	4,906	326
2024	<u>5,122</u>	<u>116</u>
TOTAL	\$ 34,491	\$ 2,210

Proprietary-Type Activities

In March 2018, the City borrowed from Commercial Bank of Texas for the purchase of a 2018 Dodge Ram Utility vehicle. The loan amount was \$29,965 and bears interest at the rate of 3.25%. Payments are due in 48 monthly payments of \$667.63. Maturity February 2022.

In October 2018, the City borrowed from Commercial Bank of Texas for the purchase of a 2019 Dodge Ram Utility vehicle. The loan amount was \$7,717 and bears interest at the rate of 4.0%. Payments are due in 36 monthly payments of \$227.81. Maturity October 2021.

In September 2020, the City borrowed from Commercial Bank of Texas for the purchase of a 2019 Dodge Ram 3500 Utility vehicle. The loan amount was \$33,050 and bears interest at the rate of 4.25%. Payments are due in 48 monthly payments of \$749.91. Maturity September 2024.

Principal and interest payments projected for the following three years:

	<u>Principal</u>	<u>Interest</u>
2021	\$ 18,149	\$ 1,566
2022	11,390	947
2023	8,430	569
2024	<u>8,795</u>	<u>204</u>
TOTAL	\$ 46,764	\$ 3,285

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE VI. PROPERTY TAXES

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period, including those expected to be collected during a 60-day period after the close to the City's fiscal year.

NOTE VII. INSURANCE COVERAGE

General Insurance - In accordance with the state statute, the City is protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. According to the latest actuarial opinion dated October 1, 2019, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

Health Insurance - During the year-ended September 30, 2020, the employees of the City were covered by a health and dental insurance plan (the Plan). The City paid the insurance premiums for each employee to the Plan and employees, at their option, authorized payroll withholding to pay premiums for dependents. Employees can, at their option, obtain coverage for vision insurance through the Plan. Employees pay 100% of the premiums for any such additional insurance coverage.

NOTE VIII. RISK MANAGEMENT COVERAGE

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays quarterly premiums to TML for its above coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE IX. EMPLOYEE PENSION PLAN

A. Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit 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.tmrs.com.

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

B. 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 payments 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:

Deposit Rate:	7%
City's Rate:	2019/10.55%; 2020/10.97%
Matching Ratio (City to Employee):	2 to 1
Years Required for Vesting:	5 years
Service Retirement Eligibilities:	5 yrs/age 60; 20 yrs/any age

Employees covered by benefit terms.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	23
Active employees	<u>13</u>
	45

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, 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) actuarial 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 were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.55% and 10.97% in calendar years 2019 and 2020, respectively. The city's contributions to TMRS for the year ended September 30, 2020 were \$53,369 and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2019, 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	3.5% to 11.50% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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 in 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 (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.3%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.0%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	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.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 1,095,028	\$ 993,858	\$ 101,170
Changes for the year:			
Service cost	84,066	-	84,066
Interest	75,082	-	75,082
Change of benefit terms	-	-	-
Difference between expected and actual experience	12,016	-	12,016
Changes of assumptions	(1,248)	-	(1,248)
Contributions - employer	-	51,500	(51,500)
Contributions - employee	-	34,924	(34,924)
Net investment income	-	153,640	(153,640)
Benefit payments, including refunds of employee contributions	(49,465)	(49,465)	-
Administrative expense	-	(868)	868
Other changes	-	(25)	25
Net changes	\$ 120,451	\$ 189,706	\$ (69,255)
Balance at 12/31/2019	\$ 1,215,479	\$ 1,183,563	\$ 31,916

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	\$ 241,863	\$ 31,916	\$ (133,803)

Pension Plan Fiduciary Net Position

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

CITY OF ALTO, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2020

E. 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 \$54,362 per the TMRS GASB 68 actuarial report. The general ledger expense was slightly more to include death benefits.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,368	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	(34,493)
NET Total (amortized in table below)		\$ (32,125)
Contributions subsequent to the measurement date (Additional Deferred Outflow)	38,969	-

\$38,969 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2020	\$ (11,907)
2021	(6,756)
2022	3,848
2023	(17,310)
Thereafter	-
Total	\$ (32,125)

F. Other Post Employment Benefit (OPEB)

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). This is a single employer defined benefit plan.

The member city contributes to the SDBF at a contractually required rate 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.

Employees covered by benefit terms.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms established by City Ordinance:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>13</u>
	23

Changes in OPEB	Total OPEB Liability
Balance at 12/31/2018	\$ 43,235
Changes for the year:	
Service cost	1,347
Interest on Total OPEB	1,617
Change of benefit terms	-
Difference between expected and actual experience	(600)
Changes of assumptions or other inputs	8,830
Benefit payments, including refunds of employee contributions	(649)
Net changes	\$ 10,545
Balance at 12/31/2018	\$ 53,780

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Summary of Actuarial Assumptions:

Inflation	2.5%
Salary Increases	3.50% to 11.5% including inflation
Discount Rate *	2.75%
Retirees' share of benefit-related costs	\$0
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	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.*

***Note: The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.*

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

The following presents the Total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's Total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
Total OPEB liability	\$ 63,877	\$ 53,780	\$ 46,040

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

OPEB Expense	Total OPEB Expense
Service Cost	\$ 1,347
Interest on Total OPEB	1,617
Change of benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources	
Differences between expected and actual expense	(600)
Changes in assumptions or other inputs	1,634
Total OPEB Expense	\$ 3,998

Deferred (Inflows) / Outflows of Resources	Deferred (INFLOWS) of resources	Deferred OUTFLOWS of resources
Differences between expected and actual experience	\$ (1,933)	\$ -
Changes in assumptions and other inputs		7,099
Net Total		\$ 5,166
Contributions made subsequent to measurement date	-	298

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

Year ended Dec 31:	NET deferred out/(in)
2020	\$ 1,034
2021	937
2022	441
2023	1,369
2024	1,369
Thereafter	16
Total	\$ 5,166

CITY OF ALTO, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2020

Schedule of Contributions - (Retiree-only portion of the rate, for OPEB): Plan / Calendar Year	Total SDB Contribution Rate	Retiree portion SDB Contribution Rate
2020	0.22%	0.12%
2019	0.25%	0.13%
2018	0.23%	0.13%
2017	0.19%	0.11%

Note 1: Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

*Note 2: In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:
 Total covered payroll * Retiree Portion of SDB Contribution (Rate)*

NOTE X. LITIGATION

Currently management is unaware of significant pending litigation against the City. In FY2019 and FY2020 the City did receive \$24,030 and \$4,760 in restitution income related to a prior year embezzlement reimbursement agreement administered through the Cherokee County Community Supervision and Corrections Department.

NOTE XI. FEDERAL, STATE AND LOCAL GRANT REVENUE

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods. There were no significant grant projects in FY2020.

NOTE XII. COMPENSATED ABSENCES

The City employees now accrue paid time off (PTO) that can be used for vacation or sick time. The accrual is based on the number of years employed with a set maximum hours allowed to be carried over each year.

NOTE XIII. RESTRICTED ASSETS

At September 30, 2020, the City's restricted assets consisted of \$111,567 for the Gas Line Repair in the Utility Fund.

CITY OF ALTO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE XIV. ADDITIONAL WATER AND SEWER INFORMATION

The following information is included at the request of the Texas Water Development Board for the year under audit.

Water Accountability Report:

Gallons Pumped:	No Records Available
Gallons Billed:	31,151,200

NOTE XV. SIGNIFICANT TRANSACTIONS WITH A COMPONENT UNIT

The City has an agreement with the Alto Economic Development Corporation whereby one-third of the sales tax revenue of the City is paid to the Development Corporation. During the year ended September 30, 2020, \$58,164 of sales tax revenue received by the City was allocated to Alto EDC. Transactions with the City involved their assistance in the funding of authorized projects related to the betterment of the local environment for business and commerce.

NOTE XVI. DEVELOPER CONTRIBUTED ASSETS

The City receives contributed assets on occasion from various developers in return for the City to provide services to the end customers. Typically, the developer completes the project using their own resources and then donates the completed assets to the City after the City engineers have inspected and approved. During the year ended September 30, 2020, there were no assets transferred to the City.

NOTE XVII. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2020 up through March 26, 2021, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring disclosure.

Required Supplementary Information

CITY OF ALTO, TEXAS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	NON-GAAP BUDGETARY BASIS			
	Budget Original	Budget Final	Actual	Variance
Revenues				
Property taxes	\$ 148,000	\$ 155,000	\$ 133,414	\$ (21,586)
Franchise fees	40,250	38,715	34,367	(4,348)
Sales tax collected	166,000	180,000	173,098	(6,902)
Fines and fees - Police and Court	311,474	215,000	230,744	15,744
Charges for service - Ambulance	33,000	38,500	36,150	(2,350)
Charges for service - Sanitation	172,042	185,000	174,799	(10,201)
Charges for service - Library	3,600	-	-	-
Grants & donations	-	-	4,760	4,760
Miscellaneous	8,100	25,250	26,752	1,502
New debt proceeds	-	-	-	-
Total Revenues	882,466	837,465	814,084	(23,381)
Expenditures				
General government	326,805	311,755	308,303	(3,452)
Police	321,650	294,325	302,810	8,485
Code enforcement	68,075	68,370	72,535	4,165
Fire	25,400	22,100	21,573	(527)
Ambulance and EMS	39,800	39,800	41,970	2,170
Public works - Street	68,554	69,165	68,632	(533)
Public works - Sanitation	135,000	153,000	153,006	6
Public services - Municipal Court	222,425	177,910	179,887	1,977
Library	1,200	450	436	(14)
Sales tax paid to EDC	55,333	57,700	58,164	464
Capital outlay	-	5,000	5,000	-
Principal retirement / Debt service	23,600	16,600	14,904	(1,696)
Total Expenditures	1,287,842	1,216,175	1,227,220	11,045
Other				
Transfers In / (Out)	405,376	405,376	395,896	(9,480)
Total Other	405,376	405,376	395,896	(9,480)
Net Change in Fund Balances	-	26,666	(17,240)	\$ (43,906)
Fund Balances: Beginning		247,531	247,531	
Fund Balances: Ending		\$ 274,197	\$ 230,291	

See independent auditor's report.

CITY OF ALTO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	LAST 10 FISCAL YEARS*					
	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
Total Pension Liability						
Service Cost	\$ 27,952	\$ 53,925	\$ 59,571	\$ 60,237	\$ 78,453	\$ 84,066
Interest (on the Total Pension Liability)	54,598	59,145	62,446	64,681	70,282	75,082
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	12,483	11,088	(43,510)	7,828	(17,854)	12,016
Change of assumptions	-	(2,055)	-	-	-	(1,248)
Benefit payments, including refunds of employee contributions	<u>(46,073)</u>	<u>(40,044)</u>	<u>(49,396)</u>	<u>(42,071)</u>	<u>(75,684)</u>	<u>(49,465)</u>
Net Change in Total Pension Liability	48,960	82,059	29,111	90,675	55,197	120,451
Total Pension Liability - Beginning	<u>789,026</u>	<u>837,986</u>	<u>920,045</u>	<u>949,156</u>	<u>1,039,831</u>	<u>1,095,028</u>
Total Pension Liability - Ending (a)	\$ 837,986	\$ 920,045	\$ 949,156	\$ 1,039,831	\$ 1,095,028	\$ 1,215,479
Plan Fiduciary Net Position						
Contributions - Employer	\$ 16,877	\$ 18,092	\$ 24,656	\$ 29,243	\$ 41,612	\$ 51,500
Contributions - Employee	20,646	24,623	25,411	24,401	31,453	34,924
Net Investment Income	45,605	1,230	56,308	123,762	(30,787)	153,640
Benefit payments, including refunds of employee contributions	(46,073)	(40,044)	(49,396)	(42,071)	(75,684)	(49,465)
Administrative Expense	(476)	(749)	(639)	(642)	(595)	(868)
Other	<u>(39)</u>	<u>(36)</u>	<u>(34)</u>	<u>(33)</u>	<u>(31)</u>	<u>(25)</u>
Net Change in Plan Fiduciary Net Position	36,540	3,116	56,306	134,660	(34,032)	189,706
Plan Fiduciary Net Position - Beginning	<u>797,267</u>	<u>833,807</u>	<u>836,923</u>	<u>893,229</u>	<u>1,027,889</u>	<u>993,857</u>
Plan Fiduciary Net Position - Ending (b)	\$ 833,807	\$ 836,923	\$ 893,229	\$ 1,027,889	\$ 993,857	\$ 1,183,563
Net Pension Liability - Ending (a) - (b)	<u>\$ 4,179</u>	<u>\$ 83,122</u>	<u>\$ 55,927</u>	<u>\$ 11,942</u>	<u>\$ 101,171</u>	<u>\$ 31,916</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.50%	90.97%	94.11%	98.85%	90.76%	97.37%
Covered Employee Payroll	\$ 294,937	\$ 351,763	\$ 363,017	\$ 348,593	\$ 449,332	\$ 498,911
Net Pension Liability as a Percentage of Covered Employee Payroll	1.42%	23.63%	15.41%	3.43%	22.52%	6.40%

* Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

See independent auditor's report

CITY OF ALTO, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CONTRIBUTIONS

REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of Changes in the City’s Net Pension Liability and Related Ratios shows the changes in Total Pension Liability less the changes in Fiduciary Net Position, resulting in the net pension liability calculation for the city. Note that this is a 10-year schedule, to be created by the city prospectively, over the next 10-year period. This schedule is provided in the GRS Reporting Package (for the current period).

The Schedule of Employer Contributions shows the city’s required annual contributions from the actuarial valuation, compared with the actual contributions remitted. This schedule is based on the city’s respective fiscal year-end, and should be created by the city, and built over the next 10-year period. The city should also provide the Notes to Schedule of Contributions, including the methods and assumptions used to determine the contribution rates and information about benefit changes during the year, if any. Information to complete the Notes to Schedule of Contributions is provided in the GRS Reporting Package.

LAST 10 FISCAL YEARS WILL ULTIMATELY BE DISPLAYED

Fiscal year ending September 30,	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially Determined Contribution	\$ 23,423	\$ 26,310	\$ 38,201	\$ 50,764	\$ 53,369
Contributions in relation to the actuarially determined contribution	<u>\$ (23,423)</u>	<u>\$ (25,834)</u>	<u>\$ (38,201)</u>	<u>\$ (50,764)</u>	<u>\$ (53,369)</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ (476)</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Covered employee payroll	\$ 373,115	\$ 333,055	\$ 422,756	\$ 460,122	\$ 510,641
Contributions as a percentage of covered employee payroll	6.28%	7.76%	9.04%	11.03%	10.75%

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 24 years

See independent auditor’s report

CITY OF ALTO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS

Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information	There were no benefit changes during the year.

CITY OF ALTO, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS

LAST 10 FISCAL YEARS*

	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
Total OPEB Liability				
Service Cost	\$ -	\$ 1,290	\$ 1,842	\$ 1,347
Interest on total OPEB	-	1,516	1,532	1,617
Changes of benefit terms	-	-	-	-
Benefit payments / refunds of employee contributions	-	(383)	(584)	(649)
Recognition of deferred outflows/inflows	-	-	-	-
Differences between expected and actual	-	-	(2,433)	(600)
Changes in assumptions or other inputs	-	3,563	(2,763)	8,830
Net Changes	<u>-</u>	<u>5,986</u>	<u>(2,406)</u>	<u>10,545</u>
Total OPEB Liability - Beginning	<u>-</u>	<u>39,655</u>	<u>45,641</u>	<u>43,235</u>
Total OPEB Liability - Ending	\$ 39,655	\$ 45,641	\$ 43,235	\$ 53,780
Covered Employee Payroll	\$ 363,017	\$ 348,593	\$ 449,332	\$ 498,911
Total OPEB Liability as a Percentage of Covered Employee Payroll	10.92%	13.09%	9.62%	10.78%

NOTE: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits

* Schedule is intended to show information for 10 years.
 Additional years will be displayed as they become available.

See independent auditor's 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 Members of the City Council
City of Alto, 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, the discretely presented component unit, and each major fund of the City of Alto, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Alto, Texas' basic financial statements as listed in the table of contents, and have issued our report thereon dated March 26, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City of Alto, 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 Alto, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Alto, 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 a 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 a 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 internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Alto, Texas' financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

Murrey Paschall & Caperton, P.C.
Forney, Texas
March 26, 2021

March 26, 2021

To the Honorable Mayor and Members of the City Council
City of Alto, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund of the City of Alto, Texas (City), for the year ended September 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 25, 2020. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Alto, Texas are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2020. We noted no transactions entered into by the City of Alto, Texas during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City of Alto, Texas's financial statements was:

Management's estimate of the depreciation of the City's fixed assets is based upon management's estimate of the specific assets useful life and the cost of the assets is depreciated accordingly. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Long-term Obligations in Note V to the financial statements as these represent significant future debt payments in the form of interest and principal.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These included adjustments to:

- Adjustment to tie out all GASB 68 TMRS Pension Reporting and GASB 75 OPEB Reporting.
- Record depreciation expense.
- Reclass several expenses over \$5,000 to capital assets and depreciate.
- Adjustment to tie out all notes payable per the Comm. Bank of Texas confirmation.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 26, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. The City does use a 3rd party CPA for bookkeeping and monthly financial reporting. Our firms communicate on a regular basis to ensure all information is accurately disclosed.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Alto, Texas's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the MD&A, Budget and Actual schedules by fund type, as well as the GASB 68 and GASB 75 Pension/OPEB Liability schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

RESTRICTION ON USE

This information is intended solely for the information and use of the Honorable Mayor and City Council and management of the City of Alto, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Murrey Paschall & Caperton, P.C.