

City of Decatur, Texas

Independent Auditor's Reports and Financial Statements

September 30, 2021

City of Decatur, Texas
September 30, 2021

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Independent Auditor's Report

The Honorable Mayor and Members of City Council
City of Decatur, Texas
Decatur, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Decatur, Texas (City) as of and for the year ended September 30, 2021, 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, and each major fund of the City, as of September 30, 2021, 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, pension, and other postemployment benefit information as listed in the table of contents 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 also have issued our report dated February 25, 2022, on our consideration of the City'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'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's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
February 25, 2022

City of Decatur, Texas

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2021

The following discussion and analysis of the City of Decatur, Texas (City) financial performance gives an overview of the City's financial activities for the year ended September 30, 2021. The analysis should be read in conjunction with the financial statements that follow.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$47,371,883 (net position). Of this amount, \$4,347,654 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$2,664,123 from prior year. \$1,463,304 of this increase was attributed to governmental activities and an increase of \$1,200,819 was due to business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$13,151,193. Approximately 24 percent of this amount (\$3,127,168) is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the assigned and unassigned components of fund balance) for the general fund was \$4,414,152, or approximately 38 percent of total general fund expenditures.
- The City's total outstanding long-term bonded debt decreased by \$941,082 during the current fiscal year because of scheduled debt service payments.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes required supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Decatur, Texas

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2021

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

Both of the government-wide financial statements distinguish functions of the City's that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, economic development, tax and court, and recreation. The business-type activities of the City include the City's water and wastewater system and garbage collection.

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

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

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the special revenue fund, debt service fund, and capital project fund, which are considered to be major funds.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

City of Decatur, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021

Proprietary Funds. The City maintains one type of proprietary fund, an enterprise fund. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and wastewater system and garbage collection services.

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension and OPEB benefits to its employees.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City's, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$47,371,883, at the close of the most recent fiscal year.

A condensed version of the government-wide statement of net position follows:

	Governmental Activities		Business-type Activities		Government Totals	
	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020
Current and other assets	\$ 15,262,805	\$ 13,176,367	\$ 4,099,963	\$ 3,761,629	\$ 19,362,768	\$ 16,937,996
Capital assets, net	33,127,810	33,039,452	15,011,442	14,824,082	48,139,252	47,863,534
Total assets	48,390,615	46,215,819	19,111,405	18,585,711	67,502,020	64,801,530
Deferred outflows of resources	872,925	583,984	244,276	160,665	1,117,201	744,649
Current liabilities	3,118,196	1,726,965	1,208,681	1,069,269	4,326,877	2,796,234
Noncurrent liabilities	13,071,679	13,186,648	2,813,054	3,463,301	15,884,733	16,649,949
Total liabilities	16,189,875	14,913,613	4,021,735	4,532,570	20,211,610	19,446,183
Deferred inflows of resources	793,333	1,069,162	242,395	323,074	1,035,728	1,392,236
Net position:						
Net investment in capital assets	22,456,082	21,993,746	12,447,404	11,701,641	34,903,486	33,695,387
Restricted	7,906,367	7,558,655	214,376	205,554	8,120,743	7,764,209
Unrestricted	1,917,883	1,264,627	2,429,771	1,983,537	4,347,654	3,248,164
Total net position	\$ 32,280,332	\$ 30,817,028	\$ 15,091,551	\$ 13,890,732	\$ 47,371,883	\$ 44,707,760

City of Decatur, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021

By far, the largest portion of the City's net position (74 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,347,654 is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's overall net position increased \$2,664,123 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$1,463,304 from the prior fiscal year for an ending balance of \$32,280,332. The increase in net position is primarily due to increases in sales tax revenues and franchise, occupancy, and other taxes revenue due to a rebounding economy. Miscellaneous revenues also increased in 2021 due to reimbursements from TML for damage during winter storm, grant awards for airport ramp, and awards from a third-party default in a performance agreement.

Business-type Activities. For the City's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$15,091,551. The total increase in net position for business-type activities was \$1,200,819 from the prior fiscal year. Operations in 2021 and 2020 were relatively consistent. In 2021, business type activities received \$476,880 in capital asset transfers from governmental activities.

City of Decatur, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021

A summary of the government-wide statement of activities follows:

	Governmental Activities		Business-type Activities		Government Totals	
	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020
Revenues						
Program revenues:						
Charges for services	\$ 1,904,465	\$1,789,227	\$ 5,215,084	\$5,203,943	\$ 7,119,549	\$ 6,993,170
Operating grants and contributions	356,326	489,033	-	-	356,326	489,033
Capital grants and contributions	31,647	733,816	-	-	31,647	733,816
Total program revenues	2,292,438	3,012,076	5,215,084	5,203,943	7,507,522	8,216,019
General revenues:						
Ad valorem taxes	5,024,395	5,135,364	747,416	741,476	5,771,811	5,876,840
Sales taxes	5,462,755	4,761,377	-	-	5,462,755	4,761,377
Franchise, occupancy and other taxes	1,142,170	1,013,899	-	-	1,142,170	1,013,899
Interest on investments	7,465	100,567	1,752	22,756	9,217	123,323
Gain on sale of assets	-	3,122	-	-	-	3,122
Miscellaneous	596,123	337,016	4,075	-	600,198	337,016
Total general revenues	12,232,908	11,351,345	753,243	764,232	12,986,151	12,115,577
Total revenues	14,525,346	14,363,421	5,968,327	5,968,175	20,493,673	20,331,596
Expenses						
General government	1,227,784	762,268	-	-	1,227,784	762,268
Airport	389,263	347,077	-	-	389,263	347,077
Main street	165,786	199,218	-	-	165,786	199,218
Fire protection	1,718,108	1,626,165	-	-	1,718,108	1,626,165
Police	2,848,460	2,880,765	-	-	2,848,460	2,880,765
Animal control	66,003	51,564	-	-	66,003	51,564
Streets	1,413,510	1,520,063	-	-	1,413,510	1,520,063
Library	581,361	696,025	-	-	581,361	696,025
Tax and court	324,096	305,892	-	-	324,096	305,892
Parks	601,312	575,546	-	-	601,312	575,546
Planning services	347,623	533,828	-	-	347,623	533,828
Inspection services	324,738	298,287	-	-	324,738	298,287
Cemetery	108,561	103,023	-	-	108,561	103,023
Conference center	762,251	807,547	-	-	762,251	807,547
Economic development	749,242	812,024	-	-	749,242	812,024
Technology	518,931	418,679	-	-	518,931	418,679
Interest and fiscal charges	438,133	354,083	-	-	438,133	354,083
Water, sewer and garbage	-	-	5,244,388	5,303,703	5,244,388	5,303,703
Total expenses	12,585,162	12,292,054	5,244,388	5,303,703	17,829,550	17,595,757
Increase in net position before transfers	1,940,184	2,071,368	723,939	664,472	2,664,123	2,735,839
Transfers	(476,880)	-	476,880	-	-	-
Change in Net Position	1,463,304	2,071,368	1,200,819	664,472	2,664,123	2,735,839
Net Position, Beginning	30,817,028	28,745,660	13,890,732	13,226,260	44,707,760	41,971,921
Net Position, Ending	\$ 32,280,332	\$ 30,817,028	\$ 15,091,551	\$ 13,890,732	\$ 47,371,883	\$ 44,707,760

City of Decatur, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021

Financial Analysis of Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At September 30, 2021, the City's governmental funds reported combined fund balances of \$13,151,193, an increase of \$790,163 in comparison with the prior year. Approximately 24 percent of this amount (\$3,127,168) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form (\$99,171), 2) legally required to be maintained intact (\$971,725), 3) restricted for particular purposes (\$7,008,399), or 4) assigned for particular purposes (\$1,944,730).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,173,887, while total fund balance increased to \$5,269,924. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 27 percent of total general fund expenditures, while total fund balance represents approximately 45 percent of that same amount.

The fund balance of the City's general fund increased by \$433,737 during the current fiscal year due primarily to the increase in ad valorem taxes, sales taxes, franchise, occupancy, and other taxes revenues as the economy continues to rebound from the pandemic.

The special revenue fund, a major fund, had a \$821,234 increase in fund balance during the current fiscal year to bring the year-end fund balance to \$4,764,582. The increase in fund balance was mainly attributable to increased sales tax revenue. A significant portion of fund balance is restricted for debt service and economic development.

The debt service fund had a slight increase in fund balance during the current year of \$5,449 to bring the year-end fund balance to \$1,668,492. The increase in fund balance was mainly attributable to decreased debt service payments, which was offset by a decrease in ad valorem taxes due to a millage decrease related to debt service.

The capital project fund had a decrease in fund balance during the current year of \$470,257 to bring the year-end fund balance to \$1,448,195. The decrease in fund balance was mainly attributable to increased project costs for water system improvements which were ultimately transferred to the water and sewer department. A significant portion of fund balance is restricted or assigned for future capital projects.

City of Decatur, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021

Proprietary Fund. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Enterprise Fund at the end of the year was \$2,429,771. The total change in net position was \$1,200,819. The increase primary results from current year increased tax valuations, controlled costs, and capital asset transfers from governmental activities.

General Fund Budgetary Highlights

During FY2020-21, actual revenues exceeded the final budget by \$1,054,976, which was primarily related to increased ad valorem tax, sales tax and other revenues. Actual expenditures were \$313,482 more than the final budget due primarily to increased capital related spending.

Pensions and Retiree Health Care

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments around the nation. The funding valuation is important as the actuarial methods used, including strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to the effectiveness of its funding strategy. Information contained in the financial statements themselves, including the Required Supplementary Information (RSI) On a reporting basis, the City's financial statements reflect a Net Pension Liability as of September 30, 2021, of \$2,914,262 which is 45.20 percent of the City's measurement year 2020 covered payroll of \$6,446,936.

Retiree supplemental death benefit actuarially accrued liability has been calculated in accordance with GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. The Total OPEB Liability is \$469,266 as of September 30, 2021, which is 7.28 percent of the City's measurement year 2020 covered payroll of \$6,446,936.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to \$48,139,252 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, and the water treatment plant. The total increase in capital assets for the current fiscal year was approximately 1 percent.

City of Decatur, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021

	Governmental Activities		Business-type Activities		Government Totals	
	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020
Land	\$ 3,803,690	\$ 3,803,690	\$ 744,388	\$ 744,388	\$ 4,548,078	\$ 4,548,078
Construction in process	-	-	-	-	-	-
Airport	7,149,612	7,099,368	-	-	7,149,612	7,099,368
Conference center	7,450,964	7,435,176	-	-	7,450,964	7,435,176
Fire Department	6,670,118	5,823,758	-	-	6,670,118	5,823,758
General government	876,502	876,502	-	-	876,502	876,502
Library	1,696,800	1,711,224	-	-	1,696,800	1,711,224
Parks	2,844,954	2,715,927	-	-	2,844,954	2,715,927
Police	2,774,152	2,675,152	-	-	2,774,152	2,675,152
Street equipment	1,277,303	1,087,380	-	-	1,277,303	1,087,380
Street infrastructure	18,321,286	18,321,286	-	-	18,321,286	18,321,286
Other	1,523,475	1,398,803	-	-	1,523,475	1,398,803
Water and sewer systems	-	-	27,407,811	26,739,183	27,407,811	26,739,183
Accumulated depreciation	(21,261,046)	(19,908,814)	(13,140,757)	(12,659,489)	(34,401,803)	(32,568,303)
Capital assets, net	\$ 33,127,810	\$ 33,039,452	\$ 15,011,442	\$ 14,824,082	\$ 48,139,252	\$ 47,863,534

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

- Purchase of a pumper truck for the fire department at a cost of approximately \$629,000
- Various projects related to water and sewer system at a cost of approximately \$793,000

Additional information on the City's capital assets can be found in *Note 5* on pages 34-35 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$13,023,918.

	Governmental Activities		Business-type Activities		Government Totals	
	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020
Refunding bonds	\$ 3,725,000	\$ 4,405,000	\$ -	\$ -	\$ 3,725,000	\$ 4,405,000
Sales tax bonds	6,250,000	6,520,000	-	-	6,250,000	6,520,000
Unlimited tax refunding bonds	-	-	2,420,000	3,040,000	2,420,000	3,040,000
Capital lease	628,918	-	-	-	628,918	-
Total bonded debt outstanding	\$ 10,603,918	\$ 10,925,000	\$ 2,420,000	\$ 3,040,000	\$ 13,023,918	\$ 13,965,000

The City's total debt decreased by \$941,082, (7 percent) during the current fiscal year. The reason for the decrease is regularly scheduled debt service payments during the fiscal year and offset by the issuance of a capital lease for the pumper truck mentioned above.

City of Decatur, Texas

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2021

The City and its component unit, Wise County Water Supply District Water Authority both maintain a “AA” rating from Standard & Poor’s Ratings and a “A1” rating from Moody’s Investors Service for general obligation debt.

Additional information on the City’s long-term debt assets can be found in *Note 9* on pages 45-49 of this report.

Economic Factors and Next Year’s Budgets and Rates

The annual budget is developed to provide the most efficient and effective uses of the City’s economic resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities. In considering the City’s budget for the year ending September 30, 2022, the City Council and Management considered the following factors:

- Ad valorem tax revenues are budgeted to increase due to slightly higher certified values.
- Sales tax, hotel/motel taxes are anticipated to increase slightly.
- Water and sewer revenues are anticipated to remain steady.
- Expenditures are budgeted to increase due to increased personnel cost and professional services.
- Capital expenditures include the purchase of equipment, vehicles and infrastructure improvements.
- Pandemic

The City routinely sets aside resources to deal with fluctuations in the economy and to plan for future capital expansion.

The City blends the Wise County Water Supply District (District) into the business-type activities of the City. The District’s separately issued 2021 financial statements dated December 14, 2021, may be obtained by contacting the District’s General Manager, Brett Shannon at 201 E. Walnut, Decatur, Texas 76234.

Financial Contact

The City’s financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City’s finances and to demonstrate the City’s accountability. If you have questions about the report or need additional financial information, please contact the City Manager Brett Shannon, 201 E. Walnut, Decatur, Texas 76234.

Basic Financial Statements

City of Decatur, Texas

Statement of Net Position

September 30, 2021

Assets and Deferred Outflows of Resources	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents, unrestricted	\$ 5,330,561	\$ 2,795,955	\$ 8,126,516
Certificates of deposit	844,977	-	844,977
Receivables, net of allowances for uncollectibles	1,238,400	897,281	2,135,681
Prepaid items	24,171	-	24,171
Internal balances	6,712	(6,712)	-
Current maturities of business development loan receivable	50,000	-	50,000
Total current assets	<u>7,494,821</u>	<u>3,686,524</u>	<u>11,181,345</u>
Noncurrent Assets			
Cash and cash equivalents, restricted	7,690,484	413,439	8,103,923
Business development loan receivable	77,500	-	77,500
Capital assets			
Land	3,803,690	744,388	4,548,078
Buildings and equipment	28,105,414	-	28,105,414
Street infrastructure	22,479,752	-	22,479,752
Water and sewer distribution systems	-	27,407,811	27,407,811
Accumulated depreciation	(21,261,046)	(13,140,757)	(34,401,803)
Total capital assets, net of depreciation	<u>33,127,810</u>	<u>15,011,442</u>	<u>48,139,252</u>
Total noncurrent assets	<u>40,895,794</u>	<u>15,424,881</u>	<u>56,320,675</u>
Total assets	<u>48,390,615</u>	<u>19,111,405</u>	<u>67,502,020</u>
Deferred Outflows of Resources			
Deferred amount on refunding	19,340	-	19,340
Pension	766,659	219,398	986,057
OPEB	86,926	24,878	111,804
Total deferred outflows of resources	<u>872,925</u>	<u>244,276</u>	<u>1,117,201</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Accounts payable	489,038	307,802	796,840
Other current liabilities	630,527	139,888	770,415
Accrued interest payable	16,795	25,714	42,509
Unearned revenue	878,897	-	878,897
Current maturities of long-term debt	695,000	645,000	1,340,000
Current maturities of capital lease payable	54,785	-	54,785
Accrued compensated absences	353,154	90,277	443,431
Total current liabilities	<u>3,118,196</u>	<u>1,208,681</u>	<u>4,326,877</u>
Noncurrent Liabilities			
Long-term debt	9,280,000	1,775,000	11,055,000
Debt issuance premium, net of amortization	137,683	75,252	212,935
Capital lease payable	574,133	-	574,133
Accrued compensated absences	449,171	72,652	521,823
Meter and other deposits	-	137,314	137,314
Net pension liability	2,265,838	648,424	2,914,262
Total OPEB liability	364,854	104,412	469,266
Total noncurrent liabilities	<u>13,071,679</u>	<u>2,813,054</u>	<u>15,884,733</u>
Total liabilities	<u>16,189,875</u>	<u>4,021,735</u>	<u>20,211,610</u>
Deferred Inflows of Resources			
Deferred amount on refunding	23,224	22,008	45,232
Pension	755,902	216,319	972,221
OPEB	14,207	4,068	18,275
Total deferred inflows of resources	<u>793,333</u>	<u>242,395</u>	<u>1,035,728</u>
Net Position			
Net investment in capital assets	22,456,082	12,447,404	34,903,486
Restricted for:			
Airport	567,488	-	567,488
Capital projects	583,746	-	583,746
Cemetery	-	-	-
Expendable	135,232	-	135,232
Nonexpendable	486,069	-	486,069
Debt service	2,100,546	214,376	2,314,922
Economic development	3,035,887	-	3,035,887
Employee benefits	189,113	-	189,113
Library	-	-	-
Expendable	51,805	-	51,805
Nonexpendable	485,656	-	485,656
Municipal court	192,387	-	192,387
School crossing guard program	10,104	-	10,104
Public safety	68,334	-	68,334
Unrestricted	1,917,883	2,429,771	4,347,654
Total net position	<u>\$ 32,280,332</u>	<u>\$ 15,091,551</u>	<u>\$ 47,371,883</u>

City of Decatur, Texas
Statement of Activities
Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental Activities:							
General government	\$ 1,227,784	\$ 87,198	\$ 15,000	\$ -	\$ (1,125,586)	\$ -	\$ (1,125,586)
Airport	389,263	139,306	-	-	(249,957)	-	(249,957)
Main street	165,786	212,377	795	-	47,386	-	47,386
Fire protection	1,718,108	-	93,478	-	(1,624,630)	-	(1,624,630)
Police	2,848,460	-	236,178	-	(2,612,282)	-	(2,612,282)
Animal control	66,003	-	-	-	(66,003)	-	(66,003)
Streets	1,413,510	-	-	-	(1,413,510)	-	(1,413,510)
Library	581,361	61,856	-	13,142	(506,363)	-	(506,363)
Tax and court	324,096	749,638	-	-	425,542	-	425,542
Parks	601,312	17,303	-	-	(584,009)	-	(584,009)
Planning services	347,623	35,510	-	-	(312,113)	-	(312,113)
Inspection services	324,738	357,221	-	-	32,483	-	32,483
Cemetery	108,561	52,231	10,875	18,505	(26,950)	-	(26,950)
Conference center	762,251	191,825	-	-	(570,426)	-	(570,426)
Economic development	749,242	-	-	-	(749,242)	-	(749,242)
Technology	518,931	-	-	-	(518,931)	-	(518,931)
Interest and fiscal charges	438,133	-	-	-	(438,133)	-	(438,133)
Total governmental activities	12,585,162	1,904,465	356,326	31,647	(10,292,724)	-	(10,292,724)
Business-type Activities:							
Water, sewer, and garbage	5,244,388	5,215,084	-	-	-	(29,304)	(29,304)
Totals	\$ 17,829,550	\$ 7,119,549	\$ 356,326	\$ 31,647	(10,292,724)	(29,304)	(10,322,028)
General Revenues and Transfers:							
Ad valorem taxes					5,024,395	747,416	5,771,811
Sales taxes					5,462,755	-	5,462,755
Franchise, occupancy, and other taxes					1,142,170	-	1,142,170
Interest on investments					7,465	1,752	9,217
Miscellaneous					596,123	4,075	600,198
Transfers					(476,880)	476,880	-
Total general revenues and transfers					11,756,028	1,230,123	12,986,151
Change in Net Position					1,463,304	1,200,819	2,664,123
Net Position, Beginning					30,817,028	13,890,732	44,707,760
Net Position, Ending					\$ 32,280,332	\$ 15,091,551	\$ 47,371,883

City of Decatur, Texas
Balance Sheet – Governmental Funds
September 30, 2021

Assets	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Total Governmental Funds
Cash and cash equivalents	\$ 6,070,961	\$ 3,930,992	\$ 1,668,027	\$ 1,351,065	\$ 13,021,045
Certificates of deposit	-	736,347	-	108,630	844,977
Receivables (net of allowance for uncollectibles)					
Ad valorem taxes receivable	29,849	-	5,898	-	35,747
Sales taxes	636,352	318,177	-	-	954,529
Gross receipts taxes	101,448	-	-	-	101,448
Other receivables	146,676	-	-	-	146,676
Notes receivable	127,500	-	-	-	127,500
Prepaid items	24,171	-	-	-	24,171
Due from other funds	135,483	3,356	-	-	138,839
Total assets	\$ 7,272,440	\$ 4,988,872	\$ 1,673,925	\$ 1,459,695	\$ 15,394,932
Liabilities					
Accounts payable	\$ 395,086	\$ 82,452	\$ -	\$ 11,500	\$ 489,038
Other accrued liabilities	620,816	9,711	-	-	630,527
Due to other funds	-	132,127	-	-	132,127
Unearned revenue	878,897	-	-	-	878,897
Total liabilities	1,894,799	224,290	-	11,500	2,130,589
Deferred Inflows of Resources					
Unavailable revenues	107,717	-	5,433	-	113,150
Total deferred inflows of resources	107,717	-	5,433	-	113,150
Fund Balances					
Nonspendable:					
Prepaid items	24,171	-	-	-	24,171
Notes receivable	75,000	-	-	-	75,000
Trust principal	-	971,725	-	-	971,725
Restricted for:					
Airport	567,488	-	-	-	567,488
Capital projects	-	-	-	583,746	583,746
Cemetery	-	-	-	135,232	135,232
Debt service	-	432,054	1,668,492	-	2,100,546
Economic development	-	3,109,644	-	-	3,109,644
Employee benefits	189,113	-	-	-	189,113
Library	-	27,053	-	24,752	51,805
Municipal court	-	192,387	-	-	192,387
School crossing guard program	-	10,104	-	-	10,104
Public safety	-	68,334	-	-	68,334
Assigned to:					
Fire department	431,053	-	-	-	431,053
Capital projects	-	-	-	704,465	704,465
Parks	49,491	-	-	-	49,491
Street improvement	613,159	-	-	-	613,159
Other	146,562	-	-	-	146,562
Unassigned (deficit)	3,173,887	(46,719)	-	-	3,127,168
Total fund balances	5,269,924	4,764,582	1,668,492	1,448,195	13,151,193
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,272,440	\$ 4,988,872	\$ 1,673,925	\$ 1,459,695	\$ 15,394,932

City of Decatur, Texas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2021

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

Total fund balances – governmental funds	\$	13,151,193
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		33,127,810
Certain revenue earned but reported as a deferred inflow of resources in the funds.		113,150
The accrued interest payable on long-term debt is not due and payable in the current year and, therefore, it is not reported in the governmental funds.		(16,795)
Long-term liabilities and related deferred outflows and inflows of resources (deferred charge on refunding, deferred outflows of resources – pension, deferred outflows of resources – OPEB, deferred inflows of resources – pension, and deferred inflows of resources – OPEB), including bonds payable, compensated absences, net pension liability, and total OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds financial statements.		<u>(14,095,026)</u>
Total net position – governmental activities	\$	<u>32,280,332</u>

City of Decatur, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
Year Ended September 30, 2021

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Total Governmental Funds
Revenues					
Ad valorem taxes, penalties, and interest	\$ 4,200,226	\$ -	\$ 830,892	\$ -	\$ 5,031,118
Sales taxes	3,641,810	1,820,945	-	-	5,462,755
Franchise, occupancy, and other taxes	1,142,170	-	-	-	1,142,170
Interest on investments	2,629	2,626	1,107	1,103	7,465
Contributions, grants, and donations	294,220	62,106	-	31,647	387,973
Conference center	191,825	-	-	-	191,825
Licenses and permits	357,221	-	-	-	357,221
Fines and fees	701,839	54,788	-	-	756,627
Other revenue	880,377	212,377	-	87,198	1,179,952
	<u>11,412,317</u>	<u>2,152,842</u>	<u>831,999</u>	<u>119,948</u>	<u>14,517,106</u>
Total revenues					
Expenditures					
Current					
General government	1,110,292	195,898	-	14,174	1,320,364
Airport	227,034	-	-	-	227,034
Main street	142,895	24,625	-	-	167,520
Fire protection	1,557,354	-	-	-	1,557,354
Police	2,709,798	42,123	-	-	2,751,921
Animal control	65,227	-	-	-	65,227
Street	893,782	-	-	54,108	947,890
Library	515,057	-	-	21,993	537,050
Tax and court	310,574	13,300	-	-	323,874
Parks	520,767	-	-	-	520,767
Planning services	354,283	-	-	-	354,283
Inspection services	326,467	-	-	-	326,467
Cemetery	82,572	-	-	23,050	105,622
Conference center	628,632	-	-	-	628,632
Economic development	160,758	529,982	-	-	690,740
Technology	523,180	-	-	-	523,180
Debt service					
Principal	-	270,000	680,000	-	950,000
Interest and fiscal charges	-	246,985	146,550	-	393,535
Capital outlay	1,478,826	8,695	-	476,880	1,964,401
	<u>11,607,498</u>	<u>1,331,608</u>	<u>826,550</u>	<u>590,205</u>	<u>14,355,861</u>
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>(195,181)</u>	<u>821,234</u>	<u>5,449</u>	<u>(470,257)</u>	<u>161,245</u>
Other Financing Sources (Uses)					
Capital lease (as lessee)	628,918	-	-	-	628,918
	<u>628,918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>628,918</u>
Total other financing sources (uses)					
Net Change in Fund Balances	433,737	821,234	5,449	(470,257)	790,163
Fund Balances, Beginning	4,836,187	3,943,348	1,663,043	1,918,452	12,361,030
Fund Balances, Ending	<u>\$ 5,269,924</u>	<u>\$ 4,764,582</u>	<u>\$ 1,668,492</u>	<u>\$ 1,448,195</u>	<u>\$ 13,151,193</u>

City of Decatur, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended September 30, 2021

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

Net change in fund balances – governmental funds	\$	790,163
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures (\$1,964,401) exceeded capital depreciation (\$1,399,163) in the current period.		565,238
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, donations, or transfers to business-type activities) is to decrease net position.		(476,880)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(13,763)
The issuance of long-term debt (e.g., bonds and capital lease) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of deferred gain/loss on refunding, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		373,934
Current year change in accrued interest required the use of current financial resources; but is not reported as an expense in the governmental activities.		2,550
Current year changes in long-term liabilities for compensated absences did not require the use of current financial resources; but are reported as expenses in governmental activities.		(107,028)
Current year pension and OPEB expenditures are reported on the fiscal year basis in the governmental statement of revenues, expenditures, and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows/inflows of resources balances.		<u>329,090</u>
Change in the net position of governmental activities	\$	<u><u>1,463,304</u></u>

City of Decatur, Texas
Statement of Net Position – Proprietary Fund
September 30, 2021

	<u>Business-type Activities Enterprise Fund</u>
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and cash equivalents, unrestricted	\$ 2,795,955
Ad valorem taxes receivable, net	5,196
Customer receivables	892,085
Total current assets	<u>3,693,236</u>
Noncurrent Assets	
Cash and cash equivalents, restricted for customer deposits	137,314
Cash and cash equivalents, restricted for debt service	240,090
Cash and cash equivalents, restricted for capital projects	36,035
Total restricted assets	<u>413,439</u>
Land	744,388
Water and sewer distribution systems and related equipment, net	14,267,054
Total capital assets, net of depreciation	<u>15,011,442</u>
Total noncurrent assets	<u>15,424,881</u>
Total assets	<u>19,118,117</u>
Deferred Outflows of Resources	
Pension	219,398
OPEB	24,878
Total deferred outflows of resources	<u>244,276</u>
Liabilities, Deferred Inflows of Resources, and Net Position	
Current Liabilities	
Accounts payable	307,802
Other current liabilities	139,888
Due to other funds	6,712
Accrued interest payable	25,714
Current maturities of long-term debt	645,000
Accrued compensated absences	90,277
Total current liabilities	<u>1,215,393</u>
Noncurrent Liabilities	
Long-term debt	1,775,000
Debt issuance premium, net of amortization	75,252
Accrued compensated absences	72,652
Meter deposits	137,314
Net pension liability	648,424
Total OPEB liability	104,412
Total noncurrent liabilities	<u>2,813,054</u>
Total liabilities	<u>4,028,447</u>
Deferred Inflows of Resources	
Deferred amount on refunding	22,008
Pension	216,319
OPEB	4,068
Total deferred inflows of resources	<u>242,395</u>
Net Position	
Net investment in capital assets	12,447,404
Restricted for:	
Debt service	214,376
Unrestricted	2,429,771
Total net position	<u>\$ 15,091,551</u>

City of Decatur, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Position –
Proprietary Fund
Year Ended September 30, 2021

	Business-type Activities
	Enterprise Fund
Operating Revenues	
Water charges	\$ 2,778,196
Sewer charges	1,795,465
Garbage and other charges	494,938
Other charges for services and miscellaneous	146,485
	5,215,084
Total operating revenues	5,215,084
Operating Expenses	
Public works	272,989
Sewer, plant and operation	634,312
Utility billing	214,519
Raw water purchases	470,217
Water utilities	1,617,295
Utility maintenance	932,543
Garbage fees	412,847
Depreciation	605,943
	5,160,665
Total operating expenses	5,160,665
Operating income	54,419
Nonoperating Revenues (Expenses)	
Ad valorem taxes, interest and penalties	747,416
Interest income	1,752
Miscellaneous	4,075
Interest expense	(83,723)
	669,520
Total nonoperating revenues (expenses)	669,520
Income before capital contributions and transfers	723,939
Capital contributions from governmental activities	476,880
	1,200,819
Change in Net Position	1,200,819
Net Position, Beginning	13,890,732
Net Position, Ending	\$ 15,091,551

City of Decatur, Texas
Statement of Cash Flows – Proprietary Fund
Year Ended September 30, 2021

Cash Flows from Operating Activities	
Cash received from customers	\$ 5,202,185
Cash payments to suppliers for goods and services	(2,729,911)
Cash payments to employees and other directly related employment costs	(1,806,852)
Other operating receipts	4,075
	<u>669,497</u>
Net cash provided by operating activities	
Cash Flows from Capital and Related Financing Activities	
Property taxes (capital), net	747,416
Acquisition and construction of capital assets	(316,423)
Principal paid on long-term debt	(620,000)
Interest paid on long-term debt	(115,400)
	<u>(304,407)</u>
Net cash used in capital and related financing activities	
Cash Flows from Investing Activities	
Interest on investments	1,752
	<u>1,752</u>
Net cash provided by investing activities	
Net increase in cash and cash equivalents	
	366,842
Cash and Cash Equivalents, Beginning of Year	<u>2,842,552</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,209,394</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	<u>\$ 54,419</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	605,943
Miscellaneous expense	4,075
(Increases) decreases in assets and deferred outflows of resources:	
Customer accounts receivable, net	21,796
Deferred outflows of resources	(83,611)
Increases (decreases) in liabilities and deferred inflows of resources:	
Accounts payable and accrued expenses	112,754
Customer deposits	(34,695)
Compensated absences	(3,371)
Net pension liability	43,754
Total OPEB liability	24,710
Deferred inflows of resources	(76,277)
	<u>615,078</u>
Total adjustments	
Net cash provided by operating activities	<u>\$ 669,497</u>
 Schedule of noncash Capital and Related Financing Activities:	
Contribution of capital assets from governmental activities	\$ 476,880
Purchase of capital assets in accounts payable	\$ 82,813

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the City of Decatur, Texas conform to accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant policies.

Description of the Reporting Entity

The City of Decatur, Texas (City) was incorporated in 1873. The City operates under a council/manager form of government and provides services authorized by its charter including public safety, public improvements, planning and zoning, and general administrative services.

The accompanying financial statements present the City and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. The City has no discretely presented component units.

Blended Component Units

The Corporation for Economic Development of the City of Decatur, Texas (EDC) is governed by a five-member board appointed by the City Council. The EDC collects a one-half percent sales tax that is available for specific use economic development projects. The sales tax collections have been pledged to service the City debt. Additionally, the City has the ability to exercise influence over all management decisions of the EDC. The financial data of the EDC has been blended into the special revenue fund of the City. The EDC does not issue separate financial statements.

The Wise County Water Supply District (District) is governed by a five-member board appointed by the City Council. The District owns the water treatment plant, the raw water line from the lake to the water treatment plant and an elevated treated water storage tower used by the City. The District is an integral part of providing treated water to the residents and businesses of the City. The District levies property taxes to service the debt used to acquire the District's capital assets. The City has the ability to exercise influence over all the District's management decisions. The financial data of the Corporation has been blended into the governmental-type activities of the City. A separately issued financial reports is available for the District and may be obtained by contacting the District's General Manager, Brett Shannon, 201 E. Walnut, Decatur, Texas 76234.

Related Organizations

The City's financial statements does not include the following related organizations:

- Housing Authority of the City of Decatur, Texas
- Decatur Hospital Authority

City of Decatur, Texas

Notes to Basic Financial Statements

September 30, 2021

These entities have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. These entities are excluded from the reporting entity because the City does not have the ability to exercise influence or control their daily operations, approve budgets or provide funding.

Basis of Presentation

Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the City's water function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category— governmental and proprietary— are presented. The emphasis of fund financial statements is on major governmental and the enterprise fund, each displayed in a separate column. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Corporation for Economic Development of the City of Decatur, Texas is a blended component unit of the City that has been included in this fund for financial statement presentation.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

City of Decatur, Texas

Notes to Basic Financial Statements

September 30, 2021

The City reports the following major enterprise fund:

The Enterprise Fund accounts for the activities of providing water, wastewater treatment, and garbage collection services to the residents and businesses of the City. The Wise County Water Supply District, a blended component unit, has been included in this fund for financial statement presentation.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (*i.e.*, the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities' column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities' column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

City of Decatur, Texas
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Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Budgetary Policy and Control

Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device. For management purposes, the City adopts budgets for all funds. An annual budget is legally adopted by the General Fund. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is within a fund. Budgeted amounts presented are the original adopted budget and the budget as further amended by the City Council (if amended).

Continuing Appropriations

The unexpended and unencumbered appropriations, which are available and recommended for continuation to the following fiscal year, are approved by the City Council for carryover. These commitments are reported as a designation of fund balance. Encumbered appropriations lapse at year-end but are recommended to the City Council for carryover. There were no unexpended and unencumbered appropriations at year-end.

Transactions Between Funds

Legally authorized transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

The city allocates to the enterprise fund and the special revenue fund an indirect cost percentage of administrative services for those funds but paid through the general fund along with other indirect costs deemed necessary for their operations. During the fiscal year ended September 30, 2021, the City's general fund was reimbursed \$557,000 for these services.

City of Decatur, Texas
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Cash and Cash Equivalents

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2021, cash equivalents consisted primarily of certificates of deposit.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the Government-Wide Statements and Fund Financial Statements.

Capital Assets

Capital assets, which include land, buildings, airport, equipment (furniture, vehicles, computers, etc.), and infrastructure assets (street systems, storm drains, traffic signals, etc.), are reported in the Government-Wide Financial Statements. Such assets are recorded at historical cost or estimated historical cost whether purchased or constructed. Dedicated or annexed capital assets are recorded at acquisition value at the date of the dedication or annexation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as the projects are constructed.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes	Lives (in Years)
Machinery and equipment	3-15
Vehicles	5
Furniture	7-10
Infrastructure	10-40
Water distribution system	10-40
Buildings	40

Property Taxes

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period.

City of Decatur, Texas
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Use of Restricted Resources

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

Compensated Absences

Compensated absences consist of accrued vacation time, earned compensation time and the prorated share of one thirteenth of each employee's annual salary and the related employee fringe benefits and payroll taxes. Under terms of administrative policy, regular, full-time, and permanent employees are granted vacation leave in varying amounts. Vacation time accrues at rates of 10 to 20 days per year depending on the number of years of service. Up to 20 days of vacation time may be accumulated for a year. It is the City's policy that vacation time does not accumulate past one year and therefore unused vacation time is not accumulated from year to year. Vacation time is payable at pay rates in effect at the date it is earned by the employee.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' 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.

Defined Benefit Other Postemployment Benefit Plan

The City has a single-employer defined benefit other postemployment benefit (OPEB) plan (Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet 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 that applies to a future reporting period(s) and so will not be recognized as an outflow of resources (expense/expenditure/reduction of net pension liability or total OPEB liability) until then. The City has the following items that qualify for reporting in this category:

- Deferred loss on refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

City of Decatur, Texas
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- Pension contributions after measurement date – These contributions are deferred and will be recognized in the subsequent fiscal year-end.
- Difference in expected and actual experience – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.
- Difference in assumption changes – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.
- OPEB contributions after measurement date – These contributions are deferred and will be recognized in the subsequent fiscal year-end.
- Difference in assumption changes – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.
- Difference in expected and actual experience – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

In addition to liabilities, the statement of net position or balance sheet 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 that applies to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue/increase of net pension liability or total OPEB liability) until that time. The City has the following items that qualify for reporting in this category:

- Deferred gain on refunding – A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Difference in expected and actual experience – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.
- Difference in assumption changes – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.
- Difference in expected and actual experience – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.
- Difference in projected and actual earnings on pension plan investments – This difference is deferred and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

City of Decatur, Texas
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- Unavailable revenue – This arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the following sources: property taxes and court revenues. In the General Fund, deferred inflows of resources consist of property taxes of \$27,492 and court revenues of \$80,225. In the Debt Service Fund, unavailable revenues consist of property taxes in the amount of \$5,433. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance Policies and Classifications

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which amount in those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) are legally or contractually required to remain intact. The City has classified prepaid items, notes receivable, and trust principal as being nonspendable.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

The City has recorded the following restrictions at year-end:

- Restricted for airport represents the portion of fund equity derived from airport revenues, legally restricted for the purpose of capital or operating costs of the airport.
- Restricted for capital projects represents the portion of fund equity derived from impact fees and unspent bond proceeds, legally restricted for the purpose of capital projects.
- Restricted for cemetery are funds from citizen donations and accumulated interest on the cemetery endowment, which is to be used solely for cemetery related expenditures.
- Restricted for employee benefits represents a trust fund established by the City for the purpose of paying active employee insurance premiums.
- Restricted for debt service represents the portion of fund equity legally restricted for retirement of bond principal and payment of interest and related charges.
- Restricted for economic development represents funds derived from 4B sales taxes, legally restricted for to promote the City through economic development.
- Restricted for library are funds from library grants and citizen donations, which are to be used solely for library related expenditures.

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- Restricted for municipal court represents the portion of fund equity derived from municipal court security fees and municipal court technology fees, legally restricted for the purpose of providing security services for buildings housing the municipal court of record and to finance the purchase of or to maintain technological enhancements for the municipal court of record.
- Restricted for school guard crossing program represents the portion of fund equity derived from certain traffic penalties, legally restricted to fund school guard crossing programs.
- Restricted for public safety are funds from police and fire grants, citizen donations and sale of assets seized in connection with arrests in the police department, which are to be used solely for public safety related expenditures.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action (ordinance) by the highest level of decision-making authority, namely the City Council, prior to the end of the reporting period. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of formal action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager. Committed fund balances can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution, which are equally binding and represent the highest-level actions of the City Council. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City management based on the City Council's direction.

Unassigned: This classification represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

City of Decatur, Texas
Notes to Basic Financial Statements
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The table below details the fund balance categories and classifications for Governmental Funds.

Fund Balances	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Governmental Funds
Nonspendable:					
Prepaid items	\$ 24,171	\$ -	\$ -	\$ -	\$ 24,171
Notes receivable	75,000	-	-	-	75,000
Trust principal	-	971,725	-	-	971,725
Restricted for:					
Airport	567,488	-	-	-	567,488
Capital projects	-	-	-	583,746	583,746
Cemetery	-	-	-	135,232	135,232
Debt service	-	432,054	1,668,492	-	2,100,546
Economic development	-	3,109,644	-	-	3,109,644
Employee benefits	189,113	-	-	-	189,113
Library	-	27,053	-	24,752	51,805
Municipal court	-	192,387	-	-	192,387
School crossing guard program	-	10,104	-	-	10,104
Public safety	-	68,334	-	-	68,334
Assigned to:					
Fire department	431,053	-	-	-	431,053
Capital projects	-	-	-	704,465	704,465
Parks	49,491	-	-	-	49,491
Street improvement	613,159	-	-	-	613,159
Other	146,562	-	-	-	146,562
Unassigned (deficit)	3,173,887	(46,719)	-	-	3,127,168
Total fund balances	<u>\$ 5,269,924</u>	<u>\$ 4,764,582</u>	<u>\$ 1,668,492</u>	<u>\$ 1,448,195</u>	<u>\$ 13,151,193</u>

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed resources would be considered spent first (if available), followed by assigned resources (if available), and then unassigned resources, as appropriate opportunities arise. However, the City reserves the right to selectively spend unassigned resources to defer the use of these other classified funds.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources of governmental and business-type activities and proprietary funds. The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

City of Decatur, Texas
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- Restricted Net Position – This category represents net position that have external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – The category represents net position of the City, not restricted for any project.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts reported as restricted – net position and unrestricted net-position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City’s management to make estimates and assumptions that effect reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results may differ from those estimates.

Adoption of GASB Statement No. 84, Fiduciary Activities, (GASB 84) and No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 (GASB 97)

In 2021, the City adopted GASB 84 and GASB 97. These statements improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The adoption of GASB 84 and GASB 97 had no impact on the City’s financial statements.

Note 2: Deposits and Investments

Deposits

At September 30, 2021, the carrying amount of the City’s cash and cash equivalents (including certificates of deposit) was \$17,075,416 and the respective bank balances totaled \$17,567,026.

City of Decatur, Texas
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Investments

The City's investment policy allows for investments in: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the state of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; (5) certificates of deposits issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date.

For fiscal year 2021, the City invested in non-negotiable certificates of deposits measured at amortized cost. The City records all interest revenue related to investment activities in the respective funds. As of September 30, 2021, the carrying amount of the City's certificates of deposits reported as cash equivalents totaled \$844,977.

Custodial Credit Risk

There is a risk that, in the event of a bank failure, the City's deposits may not be returned. Both the City's investment policy and the Texas Public Funds Investment Act requires that all deposits of the City that exceed the Federal Depository Insurance Corporation (FDIC) coverage levels are collateralized with securities held by a third-party custodian in the City's name. As of September 30, 2021, the value of the City's deposits and investments not insured through the FDIC has been fully collateralized and meets the requirements of the City's policy and state statutes.

Note 3: Ad Valorem Taxes

Ad valorem taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraised values are established by the Wise County Appraisal Districts at 100 percent of its estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

City of Decatur, Texas
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Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31st. Current tax collections for the year ended September 30, 2021, were 99.28 percent of the adjusted tax levy. Allocations of property tax levy by purpose for 2021 are as follows (amounts per \$100 assessed value):

General Fund	\$	0.5010
Debt Service Fund		0.0990
Total City	\$	0.6000
Wise County Water Supply District – Debt Service		0.0880
Total Wise County Water Supply District	\$	0.0880

In the Governmental Funds, property taxes are recorded as receivables and unavailable revenues (deferred inflows of resources) at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected.

Note 4: Receivables

Receivables as of year-end for the government’s individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Total
Receivables					
Ad valorem taxes receivable	\$ 108,971	\$ -	\$ 21,533	\$ 18,875	\$ 149,379
Accounts receivable	-	-	-	892,085	892,085
Sales taxes	636,352	318,177	-	-	954,529
Gross receipts taxes	101,448	-	-	-	101,448
Other receivables	967,304	-	-	-	967,304
Notes receivable	127,500	-	-	-	127,500
Less allowance for uncollectibles	(899,750)	-	(15,635)	(13,679)	(929,064)
Net receivables	\$ 1,041,825	\$ 318,177	\$ 5,898	\$ 897,281	\$ 2,263,181

See *Note 13* for additional information on the terms of the note receivable agreement.

City of Decatur, Texas
Notes to Basic Financial Statements
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Note 5: Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning of Year	Additions	Sales / Disposals	Transfers	End of Year
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 3,803,690	\$ -	\$ -	\$ -	\$ 3,803,690
Construction in progress	-	476,880	-	(476,880)	-
Total capital assets not being depreciated	3,803,690	476,880	-	(476,880)	3,803,690
Capital assets being depreciated					
Airport	7,099,368	50,244	-	-	7,149,612
Conference center	7,435,176	15,788	-	-	7,450,964
Fire equipment	5,823,758	846,360	-	-	6,670,118
General government	876,502	-	-	-	876,502
Library	1,711,224	32,507	(46,931)	-	1,696,800
Parks	2,715,927	129,027	-	-	2,844,954
Police	2,675,152	99,000	-	-	2,774,152
Street equipment	1,087,380	189,923	-	-	1,277,303
Street infrastructure	18,321,286	-	-	-	18,321,286
Other assets	1,398,803	124,672	-	-	1,523,475
Total capital assets being depreciated	49,144,576	1,487,521	(46,931)	-	50,585,166
Less: accumulated depreciation	(19,908,814)	(1,399,163)	46,931	-	(21,261,046)
Total capital assets being depreciated, net	29,235,762	88,358	-	-	29,324,120
Governmental activities capital assets, net	\$ 33,039,452	\$ 565,238	\$ -	\$ (476,880)	\$ 33,127,810
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 744,388	\$ -	\$ -	\$ -	\$ 744,388
Total capital assets not being depreciated	744,388	-	-	-	744,388
Capital assets being depreciated					
Sewer system	7,070,064	287,407	-	-	7,357,471
Trucks	177,427	-	-	-	177,427
Equipment	791,794	-	-	-	791,794
Office	10,795	-	-	-	10,795
Water and sewer lines	4,745,251	20,616	(124,675)	476,880	5,118,072
Water meters	695,261	8,400	-	-	703,661
Treated water distribution system	1,055,610	-	-	-	1,055,610
Elevated storage tower	829,569	-	-	-	829,569
Electrical generators	856,792	-	-	-	856,792
Raw water lines and pumps	4,093,133	-	-	-	4,093,133
Water treatment plant	6,413,487	-	-	-	6,413,487
Total capital assets being depreciated	26,739,183	316,423	(124,675)	476,880	27,407,811
Less: accumulated depreciation	(12,659,489)	(605,943)	124,675	-	(13,140,757)
Total capital assets being depreciated, net	14,079,694	(289,520)	-	476,880	14,267,054
Business-type activities capital assets, net	\$ 14,824,082	\$ (289,520)	\$ -	\$ 476,880	\$ 15,011,442

City of Decatur, Texas
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$	33,999
Airport		166,575
Main street		1,161
Fire protection		222,379
Police		138,684
Animal control		776
Streets		478,225
Library		47,952
Tax and court		4,633
Parks		90,795
Inspection services		915
Cemetery		1,893
Conference center		141,365
Planning		4,068
Economic development		65,743
		65,743

Total depreciation expense – governmental activities	\$	1,399,163
		1,399,163

Business-type Activities

Water and Wastewater	\$	605,943
		605,943

Total depreciation expense – business-type activities	\$	605,943
		605,943

City of Decatur, Texas
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Note 6: Defined Benefit Pension Plan

Plan Description

The City of Decatur, Texas participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the *TMRS Act*, Subtitle G, Title B, Texas Government Code (TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the System with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (Annual Report) that can be obtained at www.tmrs.com

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

Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the total member contributions and interest.

Employees Covered by Benefit Terms

At the December 31, 2020, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	65
Inactive employees entitled to but not yet receiving benefits	96
Active employees	106
	<hr/>
	267
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City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Contributions

The contribution rates in TMRS are either 5 percent, 6 percent, or 7 percent of the Member's total compensation, and the City matching percentages are either 100 percent, 150 percent, or 200 percent, 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 City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7 percent of their annual compensation during the fiscal year. The contribution rates for the City were 13.84 percent and 14.30 percent in calendar years 2021 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$909,084, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
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 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 are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3 percent 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.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

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, 2019 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 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 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75 percent. 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 Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at October 1, 2020	\$ 28,303,157	\$ 25,585,535	\$ 2,717,622
Changes for the year:			
Service cost	1,125,635	-	1,125,635
Interest (on the total pension liability)	1,907,098	-	1,907,098
Difference between expected and actual experience	470,890	-	470,890
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(1,225,327)	(1,225,327)	-
Administrative expense	-	(12,567)	12,567
Contributions – member	-	452,152	(452,152)
Contributions – employer	-	1,944,519	(1,944,519)
Net investment income	-	923,369	(923,369)
Other	-	(490)	490
Net changes	<u>2,278,296</u>	<u>2,081,656</u>	<u>196,640</u>
Balance at September 30, 2021	<u>\$ 30,581,453</u>	<u>\$ 27,667,191</u>	<u>\$ 2,914,262</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

1% Decrease in Discount Rate (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase in Discount Rate (7.75%)
\$ 7,446,893	\$ 2,914,262	\$ (767,417)

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 at www.tmr.com

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

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

For the year ended September 30, 2021, the City recognized pension expense of \$446,048.

At September 30, 2021, 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
Difference in expected and actual experience	\$ 340,810	\$ 245,900
Difference between projected and actual investment earnings on pension plan investments	-	726,321
Changes of assumptions	6,229	-
Employer contributions subsequent to the measurement date	639,018	-
Total	\$ 986,057	\$ 972,221

\$639,018 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ (324,927)
2023	82,421
2024	(339,176)
2025	(43,500)
	\$ (625,182)

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the net pension liability is liquidated by the general fund and special revenue fund. For the business type activities, the enterprise fund liquidates the net pension liability.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Note 7: Postemployment Benefits Other Than Pensions

Plan Description

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. 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 in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75).

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of \$7,500.

Employees Covered by Benefit Terms

At the December 31, 2020, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	50
Inactive employees entitled to but not yet receiving benefits	28
Active employees	106
	184

Contributions

The 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.

The City’s total SBDF contribution rates were 0.25 percent for both calendar years 2021 and 2020. The retiree portion of the total SBDF contribution rates for the City were 0.09 percent and 0.03 percent in calendar years 2021 and 2020, respectively.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2020, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.00% as of December 31, 2020 (2.75% as of December 31, 2019)
Retirees' share of benefit-related costs	\$ 0

Mortality rates for retirees and beneficiaries are based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. Based on the size of the City, rates are multiplied by an additional factor of 117.0 percent, which adds an additional layer of conservatism. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3 percent 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, 2019 actuarial valuation.

Discount Rate

The discount rate used to measure the Total OPEB Liability as of December 31, 2020 was 2 percent, compared to 2.75 percent as of December 31, 2019. Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date of December 31, 2020.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Changes in the Total OPEB Liability

	Increase (Decrease)
	Total OPEB Liability
Balance at October 1, 2020	\$ 358,211
Changes for the year:	
Service cost	26,432
Interest (on the total OPEB liability)	10,188
Difference between expected and actual experience	9,240
Changes of assumptions	67,129
Benefit payments	(1,934)
Net Changes	111,055
Balance at September 30, 2021	\$ 469,266

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 percent, 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 percent) or 1-percentage-point higher (3 percent) than the current rate:

1% Decrease in Discount Rate (1%)	Current Discount Rate Assumption (2%)	1% Increase in Discount Rate (3%)
\$ 584,062	\$ 469,266	\$ 382,660

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2021, the City recognized OPEB expense of \$59,438.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 7,490	\$ 8,261
Changes of assumptions	100,232	10,014
Employer contributions subsequent to the measurement date	4,082	-
Total	\$ 111,804	\$ 18,275

\$4,082 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2022	\$ 22,818
2023	22,126
2024	19,903
2025	20,551
2026	4,052
	\$ 89,450

Allocation of OPEB Items

The City allocates OPEB items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the total OPEB liability is liquidated by the general fund and special revenue fund. For the business type activities, the enterprise fund liquidates the total OPEB liability.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Note 8: Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by Security Financial Resources, Inc. Benefit provisions are contained in the plan document and were established and can be amended by action of City Council. All assets and income are held in trust for the exclusive benefit of participants and their beneficiaries; therefore, it is not reported in the financial statements of the City.

The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City does not match employee contributions to the deferred compensation plan.

Note 9: Long-term Debt

The following is a summary of the long-term debt activity for the year ended September 30, 2021:

	Beginning Balance	Borrowings/ Additions	Repayments/ Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Refunding bonds	\$ 4,405,000	\$ -	\$ (680,000)	\$ 3,725,000	\$ 695,000
Sales tax bonds	6,520,000	-	(270,000)	6,250,000	-
Unamortized bond premium	184,468	-	(46,785)	137,683	-
Bonds payable, net	11,109,468	-	(996,785)	10,112,683	695,000
Capital lease	-	628,918	-	628,918	54,785
Compensated absences	695,297	387,084	(280,056)	802,325	353,154
Total governmental activities	<u>\$ 11,804,765</u>	<u>\$ 1,016,002</u>	<u>\$ (1,276,841)</u>	<u>\$ 11,543,926</u>	<u>\$ 1,102,939</u>
Business-type Activities					
Unlimited tax refunding bonds	\$ 3,040,000	\$ -	\$ (620,000)	\$ 2,420,000	\$ 645,000
Unamortized bond premium	102,527	-	(27,275)	75,252	-
Bonds payable, net	3,142,527	-	(647,275)	2,495,252	645,000
Compensated absences	166,300	78,106	(81,477)	162,929	90,277
Total business-type activities	<u>\$ 3,308,827</u>	<u>\$ 78,106</u>	<u>\$ (728,752)</u>	<u>\$ 2,658,181</u>	<u>\$ 735,277</u>

For the governmental activities, compensated absences are liquidated by the general fund and special revenue fund. For the business type activities, the enterprise fund liquidates the compensated absences.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Refunding Bonds

The City issues tax and waterworks sewer system surplus revenue refunding bonds and general obligation refunding bonds to provide funds for the acquisition and construction of major capital facilities and to achieve debt service savings. The Bonds constitute direct obligations of the City, payable from an annual, continuing ad valorem tax levied, within the limit prescribed by law, on all taxable property located within the City. Refunding bonds outstanding at September 30, 2021, are as follows:

Issuance	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding End of Year
Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds	2013	\$ 3,475,000	3.0%	2024	\$ 1,135,000
General Obligation Refunding Bonds	2018	\$ 3,530,000	2.0%-4.0%	2028	<u>2,590,000</u>
					<u>\$ 3,725,000</u>

The annual aggregate maturities for the governmental activities refunding bonds for years subsequent to September 30, 2021, are as follows:

Year Ending September 30,	Principal	Interest	Total
2022	\$ 695,000	\$ 123,925	\$ 818,925
2023	720,000	101,000	821,000
2024	745,000	75,550	820,550
2025	365,000	55,300	420,300
2026	385,000	40,300	425,300
2027-2028	<u>815,000</u>	<u>32,900</u>	<u>847,900</u>
Totals	<u>\$ 3,725,000</u>	<u>\$ 428,975</u>	<u>\$ 4,153,975</u>

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Sales Tax Revenue Bonds

The Corporation for Economic Development of the City of Decatur, Texas (EDC) issues sales tax revenue bonds to provide funds for the acquisition and construction of major capital improvements. The Bonds do not constitute direct obligations of the City. The bonds are payable from a one-half of a one percent sales and use tax collected within the boundaries of the City. Sales tax bonds outstanding at September 30, 2021, are as follows:

Issuance	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding End of Year
Sales Tax Revenue Bonds	2016	\$ 1,500,000	3.25%	2037	\$ 1,210,000
Sales Tax Revenue Bonds, Taxable Series	2018	\$ 5,665,000	2.71%-4.02%	2031	5,040,000
					<u>\$ 6,250,000</u>

The annual aggregate maturities for the governmental activities EDC sales tax revenue bonds for years subsequent to September 30, 2021, are as follows:

Year Ending September 30,	Principal	Interest	Total
2022	\$ -	\$ 242,913	\$ 242,913
2023	275,000	234,522	509,522
2024	290,000	225,536	515,536
2025	295,000	215,994	510,994
2026	310,000	205,819	515,819
2027-2031	1,725,000	850,446	2,575,446
2032-2036	2,095,000	482,147	2,577,147
2037-2039	1,260,000	77,595	1,337,595
Totals	<u>\$ 6,250,000</u>	<u>\$ 2,534,972</u>	<u>\$ 8,784,972</u>

The maturity schedule above shows that there is no principal due for the upcoming year. This is due to the City having paid the principal and interest maturities due on October 1, 2021, before year end.

The following is a summary of pledged revenues of the EDC for the year ended September 30, 2021:

Revenue Pledged	Total Pledged Revenue	Current Year Debt Service Payments	Percentage Portion of Pledged Revenue Stream	Remaining Principal and Interest	Period Revenue will not be Available for Other Purposes
.5% sales and use tax	\$ 1,820,945	\$ 516,985	28.4%	\$ 8,784,972	Until 2039

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Unlimited Tax Refunding Bonds

The Wise County Water Supply District (District) issues unlimited tax refunding bonds to provide funds for the acquisition and construction of major capital facilities and achieve debt service savings. The bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District without legal limit as to rate or amount. Unlimited tax refunding bonds outstanding at September 30, 2021, are as follows:

Issuance	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding End of Year
Unlimited Tax Refunding	2018	\$ 3,040,000	2.0%-4.0%	2027	\$ 2,090,000
Unlimited Tax Refunding	2011	\$ 3,130,000	3.5%-4.0%	2022	<u>330,000</u>
					<u>\$ 2,420,000</u>

The annual aggregate maturities for the business-type activities sales tax revenue bonds for years subsequent to September 30, 2021, are as follows:

Year Ending September 30,	Principal	Interest	Total
2022	\$ 645,000	\$ 93,650	\$ 738,650
2023	325,000	71,000	396,000
2024	340,000	58,000	398,000
2025	355,000	44,400	399,400
2026	370,000	30,200	400,200
2027	<u>385,000</u>	<u>15,400</u>	<u>400,400</u>
Totals	<u>\$ 2,420,000</u>	<u>\$ 312,650</u>	<u>\$ 2,732,650</u>

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Capital Lease

The City has entered into a capital lease agreement to partially finance the acquisition of a pumper truck for the Fire Department originally valued at \$732,918.

As of September 30, 2021, the pumper truck under the capital lease is carried at \$726,810, with \$6,108 in accumulated depreciation.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2021, were as follows:

Year Ending September 30,	Principal	Interest	Total
2022	\$ 54,785	\$ 19,056	\$ 73,841
2023	56,445	17,396	73,841
2024	58,155	15,686	73,841
2025	59,917	13,924	73,841
2026	61,733	12,108	73,841
2027-2031	337,883	31,325	369,208
Total	<u>\$ 628,918</u>	<u>\$ 109,495</u>	<u>\$ 738,413</u>

Note 10: Due to/From Other Funds

The following is a summary of due to/from other funds at September 30, 2021:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 3,356
General Fund	Special Revenue Fund	\$ 132,127
Special Revenue Fund	Water Fund	\$ 3,356

The Water Fund owes the General Fund and Special Revenue Fund due to timing differences in the payment of invoices. In addition, the Special Revenue Fund owes the General Fund due to timing differences in the payment of invoices.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Note 11: Interfund Transfers

All interfund transfers between the various funds are approved supplements to the operations of those funds. There were no transfers between funds for the year ended September 30, 2021.

The Governmental Activities transferred \$476,880 of completed capital asset infrastructure to the Business-type activities during 2021. Consequently, the enterprise fund reports the receipt of the capital assets as a capital contribution from governmental activities.

Note 12: Commitments and Contingencies

Risk Management

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 is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property- Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reductions in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage in the past three years.

Economic Environment

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of City. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time but could be significant.

City of Decatur, Texas
Notes to Basic Financial Statements
September 30, 2021

Note 13: Tax Abatement Agreements

The City enters into tax abatement agreements with local business under Chapter 380 of the Texas Local Government Code. The City has the authority under both Article III, Section 52-a of the Texas Constitution and Chapter 380 to make public funds available for the purposes of promoting local economic development and stimulating business and commercial activity within the City. The City offers individual incentive packages to attract new business to the City. Abatements may be granted by City Council resolution to companies or developers agreeing to relocate to the City or to establish a new business in the City. As part of the agreements, the City agrees to refund a portion of Local Sales and Use Tax, and/or Hotel Occupancy Taxes after confirmation of payment. The agreements entered into by the City include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments, such as annual sales levels or appraised values of real and personal property located on the project site. As a part of these agreements, the City may also provide Developers financial assistance for Developer’s expenditures made towards the Project. As a part of these agreements, the City provided a loan to the developer for the related project. The developer will repay the loan over the next three years forgoing \$127,500 of the hotel occupancy tax rebate.

For the fiscal year ended September 30, 2021, the City had the following open tax abatement agreements and abated the following amounts under these agreements:

Open Agreements - Type of Tax Abatement	Amount of Taxes Abated during the Fiscal Year
Hotel Occupancy Taxes	\$ 103,205
Sales Taxes	54,513
Total	\$ 157,718

Required Supplementary Information

City of Decatur, Texas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual – General Fund
Year Ended September 30, 2021

	Budgeted Amounts			Actual	Variance with Final Budget Positive (Negative)
	Original	Amendments	Final		
Revenues					
Ad valorem taxes, penalties, and interest	\$ 3,688,523	\$ (426,850)	\$ 3,261,673	\$ 4,200,226	\$ 938,553
Sales taxes	3,491,000	-	3,491,000	3,641,810	150,810
Franchise, occupancy, and other taxes	1,053,000	-	1,053,000	1,142,170	89,170
Interest on investments	45,000	-	45,000	2,629	(42,371)
Contributions and donations	29,210	-	29,210	294,220	265,010
Conference center	524,000	-	524,000	191,825	(332,175)
Building permits and inspection service fees	292,500	-	292,500	357,221	64,721
Court	703,500	-	703,500	701,839	(1,661)
Other	530,608	-	530,608	880,377	349,769
Total revenues	<u>10,357,341</u>	<u>(426,850)</u>	<u>9,930,491</u>	<u>11,412,317</u>	<u>1,481,826</u>
Expenditures					
Current					
General government	1,391,304	-	1,391,304	1,110,292	281,012
Airport	376,956	-	376,956	227,034	149,922
Main street	149,320	-	149,320	142,895	6,425
Fire	1,428,245	45,500	1,473,745	1,557,354	(83,609)
Police	2,414,205	94,500	2,508,705	2,709,798	(201,093)
Animal control	55,400	-	55,400	65,227	(9,827)
Street	1,062,170	-	1,062,170	893,782	168,388
Library	565,862	-	565,862	515,057	50,805
Tax and court	325,766	-	325,766	310,574	15,192
Parks	760,692	-	760,692	520,767	239,925
Planning services	456,278	-	456,278	354,283	101,995
Inspection services	489,344	-	489,344	326,467	162,877
Cemetery	75,500	-	75,500	82,572	(7,072)
Conference center	929,155	-	929,155	628,632	300,523
Economic development	-	-	-	160,758	(160,758)
Technology	531,475	-	531,475	523,180	8,295
Capital outlay	236,844	-	236,844	1,478,826	(1,241,982)
Total expenditures	<u>11,248,516</u>	<u>140,000</u>	<u>11,388,516</u>	<u>11,607,498</u>	<u>(218,982)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(891,175)</u>	<u>(566,850)</u>	<u>(1,458,025)</u>	<u>(195,181)</u>	<u>1,262,844</u>
Other Financing Sources					
Transfer in	701,655	-	701,655	-	(701,655)
Capital lease (as lessee)	-	-	-	628,918	628,918
Total other financing sources	<u>701,655</u>	<u>-</u>	<u>701,655</u>	<u>628,918</u>	<u>(72,737)</u>
Net Change in Fund Balance	<u>(189,520)</u>	<u>(566,850)</u>	<u>(756,370)</u>	<u>433,737</u>	<u>1,190,107</u>
Fund Balances, Beginning	<u>4,836,187</u>	<u>-</u>	<u>4,836,187</u>	<u>4,836,187</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 4,646,667</u>	<u>\$ -</u>	<u>\$ 4,079,817</u>	<u>\$ 5,269,924</u>	<u>\$ 1,190,107</u>

City of Decatur, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System
Year Ended September 30, 2021

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016	Measurement Year 2017	Measurement Year 2018	Measurement Year 2019	Measurement Year 2020
Total Pension Liability							
Service cost	\$ 899,192	\$ 996,805	\$ 1,003,930	\$ 1,015,285	\$ 1,039,690	\$ 1,088,653	\$ 1,125,635
Interest (on the total pension liability)	1,270,814	1,401,676	1,456,889	1,562,688	1,672,578	1,789,101	1,907,098
Difference between expected and actual experience	97,522	(455,380)	(326,739)	(342,431)	(413,969)	(239,082)	470,890
Change in assumptions	-	74,579	-	-	-	13,187	-
Benefit payments, including refunds of employee contributions	(449,620)	(444,145)	(479,130)	(665,611)	(573,875)	(619,153)	(1,225,327)
Net Change in Total Pension Liability	1,817,908	1,573,535	1,654,950	1,569,931	1,724,424	2,032,706	2,278,296
Total Pension Liability – Beginning	17,929,703	19,747,611	21,321,146	22,976,096	24,546,027	26,270,451	28,303,157
Total Pension Liability – Ending (a)	<u>\$ 19,747,611</u>	<u>\$ 21,321,146</u>	<u>\$ 22,976,096</u>	<u>\$ 24,546,027</u>	<u>\$ 26,270,451</u>	<u>\$ 28,303,157</u>	<u>\$ 30,581,453</u>
Plan Fiduciary Net Position:							
Contributions – employer	\$ 783,353	\$ 835,221	\$ 845,704	\$ 858,170	\$ 878,793	\$ 899,535	\$ 923,369
Contributions – employee	397,567	398,267	394,140	397,039	409,557	429,812	452,152
Net investment income	811,445	23,193	1,116,673	2,549,630	(644,925)	3,336,804	1,944,519
Benefit payments, including refunds of employee contributions	(449,620)	(444,145)	(479,130)	(665,611)	(573,875)	(619,153)	(1,225,327)
Administrative expense	(8,470)	(14,123)	(12,603)	(13,199)	(12,448)	(18,832)	(12,567)
Other	(696)	(698)	(679)	(669)	(650)	(565)	(490)
City's Net Change in Plan Fiduciary Net Position	1,533,579	797,715	1,864,105	3,125,360	56,452	4,027,601	2,081,656
Plan Fiduciary Net Position – Beginning	14,180,723	15,714,302	16,512,017	18,376,122	21,501,482	21,557,934	25,585,535
Plan Fiduciary Net Position – Ending (b)	<u>\$ 15,714,302</u>	<u>\$ 16,512,017</u>	<u>\$ 18,376,122</u>	<u>\$ 21,501,482</u>	<u>\$ 21,557,934</u>	<u>\$ 25,585,535</u>	<u>\$ 27,667,191</u>
City's Net Pension Liability – Ending (a) – (b)	\$ 4,033,309	\$ 4,809,129	\$ 4,599,974	\$ 3,044,545	\$ 4,712,517	\$ 2,717,622	\$ 2,914,262
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	79.58%	77.44%	79.98%	87.60%	82.06%	90.40%	90.47%
Covered Payroll	\$ 5,680,974	\$ 5,689,535	\$ 5,630,567	\$ 5,671,981	\$ 5,850,819	\$ 6,140,177	\$ 6,446,936
City's Net Pension Liability as a Percentage of Covered Payroll	71.00%	84.53%	81.70%	53.68%	80.54%	44.26%	45.20%

Other Information:

For the 2019 valuation, inflation used was 2.5%, investment rate of return and discount rate used was 6.75% and actuarial studies were updated through December 31, 2018.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

City of Decatur, Texas
Schedule of Contributions
Texas Municipal Retirement System
Year Ended September 30, 2021

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Actuarially determined contribution	\$ 827,997	\$ 861,843	\$ 852,666	\$ 885,707	\$ 923,462	\$ 903,060	\$ 909,084
Contribution in relation of the actuarially determined contribution	<u>827,997</u>	<u>861,843</u>	<u>852,666</u>	<u>885,707</u>	<u>923,462</u>	<u>903,060</u>	<u>909,084</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,675,104	\$ 5,705,700	\$ 5,575,266	\$ 5,793,311	\$ 6,257,027	\$ 6,272,936	\$ 6,505,748
Contributions as a percentage of covered payroll	14.59%	15.10%	15.29%	15.29%	14.76%	14.40%	13.97%

Notes to Schedule of Contributions

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal
Amortization Method Level Percentage of Payroll, Closed
Remaining Amortization Period 25 years
Asset Valuation Method 10 Year smoothed market; 12% soft corridor
Inflation 2.50%
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

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.
Post-retirement: 2019 Municipal Retirees of Texas Mortality tables. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's most recent fiscal year-end (September 30).

City of Decatur, Texas
Schedule of Changes in the Total OPEB Liability and Related Ratios
Retiree Supplemental Death
Year Ended September 30, 2021

	Measurement Year 2017	Measurement Year 2018	Measurement Year 2019	Measurement Year 2020
Total OPEB Liability				
Service cost	\$ 17,016	\$ 19,893	\$ 17,807	\$ 26,432
Interest (on the total OPEB liability)	9,131	9,583	10,592	10,188
Difference between expected and actual experience	-	(9,381)	(5,762)	9,240
Change in assumptions	22,396	(20,670)	60,199	67,129
Benefit payments	(1,702)	(2,340)	(2,456)	(1,934)
Net Change in Total OPEB Liability	46,841	(2,915)	80,380	111,055
Total OPEB Liability – Beginning	233,905	280,746	277,831	358,211
Total OPEB Liability – Ending	<u>\$ 280,746</u>	<u>\$ 277,831</u>	<u>\$ 358,211</u>	<u>\$ 469,266</u>
Covered Employee Payroll	\$ 5,671,981	\$ 5,850,819	\$ 6,140,177	\$ 6,446,936
City’s Total OPEB Liability as a Percentage of Covered Employee Payroll	4.95%	4.75%	5.83%	7.28%
Notes to Schedule:				
Changes of benefit terms:	None			
Changes of assumptions:	Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:			
	2016	3.78%		
	2017	3.31%		
	2018	3.71%		
	2019	2.75%		
	2020	2.00%		

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

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

**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***

Independent Auditor's Report

The Honorable Mayor and Members of City Council
City of Decatur, Texas
Decatur, 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 and each major fund of the City of Decatur, Texas (City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 25, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's 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 City'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 financial statements. 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*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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.

BKD, LLP

Dallas, Texas
February 25, 2022

City of Decatur, Texas
Schedule of Findings and Responses
September 30, 2021

Reference Number	Finding
2021-001	<p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition: The City’s cash inflow, cash outflow, and payroll transaction cycles are not adequately segregated to safeguard the City’s assets, which could result in possible errors or irregularities. During our internal control analysis, we noted several instances where individuals had access, recording and monitoring capabilities within the cash inflow, cash outflow and payroll transaction cycles. In addition, we noted that bank reconciliations are not being reviewed after they are prepared.</p> <p>Cause: Duties in these transaction cycles are not adequately segregated to safeguard the City’s assets or other compensating controls are insufficient.</p> <p>Effect: Although this concentration of responsibilities may be efficient, misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Recommendation: Management should evaluate the cost versus the benefits of further segregating these duties by hiring additional personnel or shifting certain accounting duties to other current employees to assist in implementing additional monitoring or other compensating controls.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Division of duties and complete segregation of cash flow functions is especially challenging in small organizations like the City of Decatur. The City hired a new accounting generalist and reorganized roles to have a dedicated accounts payable clerk. The addition of these roles will allow the City to tighten internal controls and provide additional oversight of all financial functions. In addition, the City will strive to better use technology as a means of oversight.</p>

City of Decatur, Texas
Schedule of Findings and Responses (Continued)
September 30, 2021

Reference Number	Finding
2021-002	<p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition: The City’s year-end closing procedures were not performed timely which resulted in initial errors in the trial balances and required numerous adjustments (by City and auditor).</p> <p>Cause: Internal controls and review processes were not in place or were not followed to ensure all year-end close related activity was completed timely.</p> <p>Effect: Significant adjustments to numerous accounts were necessary in order to correct the financial statements.</p> <p>Recommendation: We suggest that the City develop an accounting policies and procedures manual that indicates all items to be completed during the year-end close and the individuals responsible for each item. Year-end procedures need to be developed and implemented to ensure account balances are reconciled timely and accurate.</p> <p>Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. We will work on developing a manual for year-end policies and procedures over the next year.</p>