

CITY OF DECATUR, TEXAS

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2014

CITY OF DECATUR, TEXAS
ANNUAL FINANCIAL AUDIT REPORT
SEPTEMBER 30, 2014

TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>PAGE NO.</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds Balance Sheet	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Statement of Net Assets – Proprietary Fund	16
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	17
Statement of Cash Flows – Proprietary Fund	18
Notes to Financial Statements	19-50
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	51
Schedule of Funding Progress – Employee Pension Plan	52
<u>OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION</u>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	53-54

FINANCIAL SECTION

M. Scott Siegmund, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
of the City of Decatur, Texas

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 as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of Decatur, Texas, as of September 30, 2014, 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

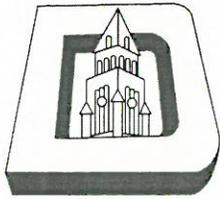
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the budgetary comparison information on page 51, and the schedule of funding progress for the employee pension plan on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2015, on our consideration of the City of Decatur, Texas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Decatur, Texas' internal control over financial reporting and compliance.


M. Scott Siegmund, LLC
Certified Public Accountants

February 20, 2015



CITY OF DECATUR, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. The analysis should be read in conjunction with the financial statements that follow.

Financial Highlights

- The City's governmental activities net assets increased by \$85 thousand from 2013. The business-type activities net assets decreased by \$213 thousand from 2013. The City's combined net assets decreased by \$128 thousand from 2013.
- During fiscal year 2014, the City had expenses/expenditures that totaled \$15.9 million of which \$11.6 million was for governmental activities and \$4.3 million was for business-type activities.
- The Governmental Funds reported an increase in fund balance of \$372 thousand. Governmental Fund revenues decreased \$112 thousand from 2013 and the expenditures decreased \$129 thousand from 2013.

Using this Annual Report

This annual report consists of Management's Discussion and Analysis (MD&A), government-wide statements, fund financial statements, notes to the financial statements, required supplementary information and a report on the overall compliance and internal control of the City. The first two statements are highly condensed and present a governmental-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, fire, building inspection, public works, parks, airport, general government, administrative, civic center, and tax and court. Business-type activities include the City's water and wastewater system and garbage collection. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

Management's Discussion and Analysis (Continued)

Basic Financial Statements

A condensed version of the Statement of Net Assets at September 30, 2014 follows:

	Governmental Activities		Business - Type Activities		Government Totals	
	2014	2013	2014	2013	2014	2013
Cash	\$ 7,851	\$ 7,469	\$ 936	\$ 1,107	\$ 8,787	\$ 8,576
Other assets	735	657	178	263	913	920
Capital assets (net)	32,090	32,975	14,986	15,320	47,076	48,295
Total assets	<u>40,676</u>	<u>41,101</u>	<u>16,100</u>	<u>16,690</u>	<u>56,776</u>	<u>57,791</u>
Other liabilities	1,915	1,155	772	797	2,687	1,952
Unfunded pension liability	4,500	4,116	0	0	4,500	4,116
Long-term debt	13,279	14,933	6,603	6,955	19,882	21,888
Total liabilities	<u>19,694</u>	<u>20,204</u>	<u>7,375</u>	<u>7,752</u>	<u>27,069</u>	<u>27,956</u>
Net assets:						
Invested in capital assets, net of related debt	18,463	18,361	8,242	8,278	26,705	26,639
Restricted	5,873	5,872	348	379	6,221	6,251
Unrestricted	(3,354)	(3,336)	135	281	(3,219)	(3,055)
Total net assets	<u>\$ 20,982</u>	<u>\$ 20,897</u>	<u>\$ 8,725</u>	<u>\$ 8,938</u>	<u>\$ 29,707</u>	<u>\$ 29,835</u>

Governmental Activities:

The net assets of the City's governmental activities totaled \$21.0 million and increased by \$85 thousand from 2013. The majority (90%) of the City's net assets are reflected in investment in capital assets (e.g., land, buildings, vehicles and equipment) less the outstanding balance of related debt used to acquire those assets. An additional portion of the City's net assets, \$6.2 million, represents resources that are subject to external restrictions on how they may be used. During 2014, the City maintained a tight fiscal policy and did not begin any new major construction projects.

Business-type activities:

The net assets of the business-type activities totaled \$8.7 million and decreased by \$213 thousand from 2013.

Management's Discussion and Analysis (Continued)

A condensed version of the Statement of Activities follows:

Governmental and Business-Type Activities For the Years then Ended (in Thousands)

	Governmental Activities		Business-Type Activities		Government Totals	
	2014	2013	2014	2013	2014	2013
<u>Revenues:</u>						
<u>Program Revenues:</u>						
Charges for services	\$ 1,679	\$ 1,759	\$ 3,787	\$ 3,938	\$ 5,466	\$ 5,697
Grants and contributions	472	477	0	0	472	477
<u>Total Program Revenues</u>	2,151	2,236	3,787	3,938	5,938	6,174
<u>General Revenues:</u>						
Taxes	9,075	9,100	761	761	9,836	9,861
Other	(14)	1	(13)	9	(27)	10
Interest	10	13	2	2	12	15
<u>Total General Revenues</u>	9,071	9,114	750	772	9,821	9,886
<u>Total Revenues</u>	11,222	11,350	4,537	4,710	15,759	16,060
<u>Expenses:</u>						
General government	1,521	837	0	0	1,521	837
Police	2,278	2,222	0	0	2,278	2,222
Fire protection	1,542	1,618	0	0	1,542	1,618
Streets	1,786	1,515	0	0	1,786	1,515
Civic center	1,146	1,169	0	0	1,146	1,169
Other	3,282	3,082	0	0	3,282	3,082
Water and sewer	0	0	4,332	4,287	4,332	4,287
<u>Total Expenses</u>	11,555	10,443	4,332	4,287	15,887	14,730
<u>Transfers:</u>	418	2	(418)	(2)	0	0
Change in net assets	85	909	(213)	421	(128)	1,330
Beginning net assets	20,897	19,988	8,938	8,517	29,835	28,505
Ending net assets	\$ 20,982	\$ 20,897	\$ 8,725	\$ 8,938	29,707	29,835

Management's Discussion and Analysis (Continued)

Governmental Activities:

The City's governmental activities revenue for 2014 totaled \$11.2 million and decreased by \$128 thousand from 2013. The governmental activities expenditures for 2014 totaled \$11.6 million and increased by \$1.1 million from 2013. Overall governmental activities reported an increase in net assets of \$85 thousand. The current operating trend indicates that management of the City has adjusted to the economic climate of North Texas.

Business-type Activities

The City's business-type revenues for 2014 totaled \$4.5 million and decreased \$173 thousand from 2013. The business-type expenses for 2014 totaled \$4.3 million, and increased by \$45 thousand from 2013. Overall the business-type activities remained flat from the previous year.

Capital Assets and Debt Administration

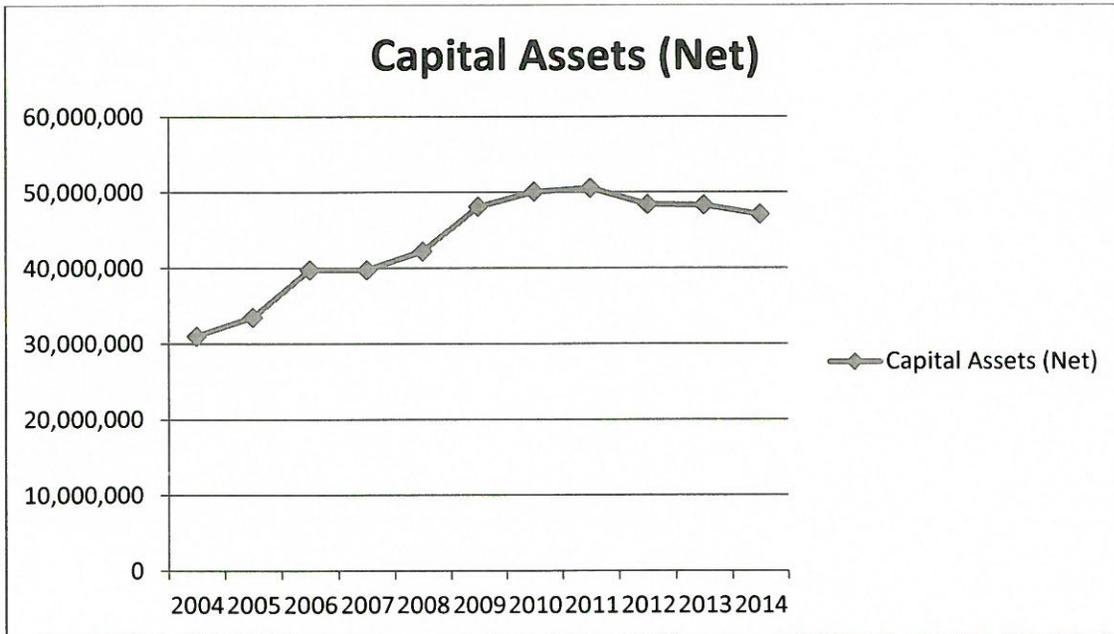
Capital Assets:

At September 30, 2014, the City had \$69.3 million invested in capital assets. This amount represents an increase of \$517 thousand from 2013. The capital assets are comprised of equipment, land, buildings and various components of infrastructure. A few of the major capital asset investments in the previous years have been the construction of a civic center, airport improvements, police headquarters, public works building, renovation of parks, buildings, street improvements, bridges, water and wastewater distribution and treatment facilities. In 2014, the City made improvements to the street infrastructure, purchased a sewer vacuum truck, updated water meters, acquired new books and videos for the library, and purchased vehicles and equipment. The major additions during the year were the sewer vacuum truck and the improvements to the street infrastructure. The City's \$517 thousand investment in capital assets indicates a strong financial position for the City.

Management's Discussion and Analysis (Continued)

Capital Assets at Year-End
(in Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,875	\$ 1,875	\$ 0	\$ 0	\$ 1,875	\$ 1,875
Airport	6,155	6,155	0	0	6,155	6,155
Civic center	5,944	5,937	0	0	5,944	5,937
Fire equipment	5,432	5,432	0	0	5,432	5,432
General government	562	551	0	0	562	551
Library	1,804	1,818	0	0	1,804	1,818
Parks	2,636	2,636	0	0	2,636	2,636
Police	2,201	2,161	0	0	2,201	2,161
Street equipment	1,016	1,034	0	0	1,016	1,034
Street infrastructure	15,100	14,843	0	0	15,100	14,843
Other	2,459	2,455	0	0	2,459	2,455
Water and sewer systems	0	0	24,108	23,878	24,108	23,878
Subtotal	45,184	44,897	24,108	23,878	69,292	68,775
Accumulated depreciation	(13,094)	(11,923)	(9,121)	(8,557)	(22,215)	(20,480)
Capital assets, net	<u>\$ 32,090</u>	<u>\$ 32,974</u>	<u>\$ 14,987</u>	<u>\$ 15,321</u>	<u>\$ 47,077</u>	<u>\$ 48,295</u>



Management's Discussion and Analysis (Continued)

Debt Outstanding:

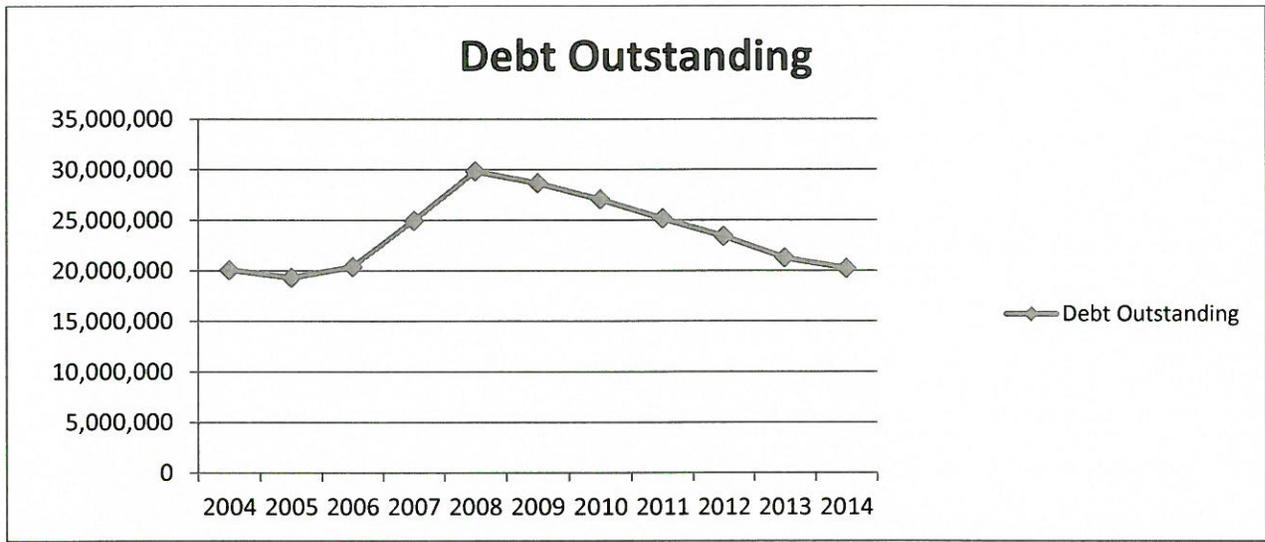
At year end, the City's debt totaled \$20.2 million and decreased by \$1.0 million from 2013. Moody's Investor Services, the municipal debt rating company, rated the City's credit at A-2. This rating allows the City to issue debt without insurance and at more competitive interest rates.

Other obligations of the City include an unfunded pension obligation (TMRS), accrued compensated absences, a capital lease obligation and meter deposits. More detailed information on the City's long-term liabilities and other obligations are presented in the notes to the financial statements.

Debt Outstanding at Year-End (in Thousands)

	Governmental Activities		Business-Type Activities		Government Totals	
	2014	2013	2014	2013	2014	2013
2008 Certificates of obligation	\$ 4,750	\$ 4,995	\$ 0	\$ 0	\$ 4,750	\$ 4,995
2011 Revenue refunding bonds	4,575	4,950	0	0	4,575	4,950
2013 Revenue refunding bonds	3,475	3,475	0	0	3,475	3,475
Capital lease obligations	773	874	233	38	1,006	912
2007 Unlimited tax and revenue bonds	0	0	4,090	4,315	4,090	4,315
2011 Unlimited tax and revenue bonds	0	0	2,345	2,605	2,345	2,605
Total Debt Outstanding	\$ 13,573	\$ 14,294	\$ 6,668	\$ 6,958	\$ 20,241	\$ 21,252

Management's Discussion and Analysis (Continued)



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, 2014, the City Council and Management considered the following factors:

- Ad valorem tax revenues are budgeted to increase due to slightly higher certified values and effective tax rates.
- Sales tax, hotel/motel taxes are anticipated to increase slightly.
- Water and sewer revenues are anticipated to increase due to a change in the fee structure.
- Expenditures are budgeted to increase due to increased personnel cost, professional services and utilities.
- Capital expenditures include the purchase of equipment, vehicles and infrastructure improvements.

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

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 Finance Director, Brad Burnett, 201 E. Walnut, Decatur, Texas 76234.

CITY OF DECATUR, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2014

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets</u>			
Cash and cash equivalents, unrestricted	\$ 1,293,813	\$ 540,775	\$ 1,834,588
Cash and cash equivalents, restricted for special revenues	3,432,391	0	3,432,391
Cash and cash equivalents, restricted for debt service	1,531,535	212,305	1,743,840
Cash and cash equivalents, restricted for capital projects	1,593,223	182,911	1,776,134
Ad valorem taxes receivable	74,712	14,373	89,085
Prepaid items	144,554	0	144,554
Customer receivables	0	345,611	345,611
Internal balances	320,000	(320,000)	0
Due from other governments	9,599	0	9,599
<u>Total Current Assets</u>	<u>8,399,827</u>	<u>975,975</u>	<u>9,375,802</u>
<u>Capital Assets, net of depreciation</u>			
Land	1,875,107	588,033	2,463,140
Buildings and equipment	18,400,605	0	18,400,605
Street infrastructure	11,813,800	0	11,813,800
Water and sewer distribution systems	0	14,398,457	14,398,457
<u>Total Capital Assets, net of depreciation</u>	<u>32,089,512</u>	<u>14,986,490</u>	<u>47,076,002</u>
<u>Non-Current Assets</u>			
Debt issuance cost, net of amortization	187,069	137,450	324,519
<u>Total Non-Current Assets</u>	<u>187,069</u>	<u>137,450</u>	<u>324,519</u>
<u>Total Assets</u>	<u>40,676,408</u>	<u>16,099,915</u>	<u>56,776,323</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable	208,712	136,441	345,153
Other current liabilities	326,698	79,067	405,765
Current maturities of long-term debt	1,379,949	556,609	1,936,558
<u>Total Current Liabilities</u>	<u>1,915,359</u>	<u>772,117</u>	<u>2,687,476</u>
<u>Non-Current Liabilities</u>			
Long-term debt	12,193,542	6,111,108	18,304,650
Debt issuance premium, net of amortization	151,665	213,754	365,419
Deferred gain, 2013 advance refunding bonds	88,345	0	88,345
Accrued compensated absences	845,515	160,851	1,006,366
Net pension liability	4,499,934	0	4,499,934
Meter deposits	0	117,091	117,091
<u>Total Non-Current Liabilities</u>	<u>17,779,001</u>	<u>6,602,804</u>	<u>24,381,805</u>
<u>Total Liabilities</u>	<u>19,694,360</u>	<u>7,374,921</u>	<u>27,069,281</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	18,463,080	8,242,469	26,705,549
Restricted for:			
Special revenue	2,914,465	0	2,914,465
Debt service	1,389,303	165,110	1,554,413
Capital projects	1,569,007	182,911	1,751,918
Unrestricted	(3,353,807)	134,504	(3,219,303)
<u>Total Net Assets</u>	<u>\$ 20,982,048</u>	<u>\$ 8,724,994</u>	<u>\$ 29,707,042</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
General government	\$ 1,521,425	\$ 24,689	\$ 27,000	\$ 0	\$ (1,469,736)	0	\$ (1,469,736)
Airport	282,183	74,070	9,599	0	(198,514)	0	(198,514)
Main street	161,662	0	11,067	0	(150,595)	0	(150,595)
Fire protection	1,542,398	2,191	60,515	0	(1,479,692)	0	(1,479,692)
Police	2,278,029	0	46,429	0	(2,231,600)	0	(2,231,600)
Animal control	75,425	1,284	0	0	(74,141)	0	(74,141)
Streets	1,786,218	0	0	211,302	(1,574,916)	0	(1,574,916)
Library	546,957	70,902	3,129	0	(472,926)	0	(472,926)
Tax and court	306,549	653,160	0	29,882	376,493	0	376,493
Parks	587,854	0	10,528	0	(577,326)	0	(577,326)
Planning services	361,261	17,650	0	0	(343,611)	0	(343,611)
Inspection services	315,865	243,078	0	0	(72,787)	0	(72,787)
Cemetery	108,526	21,891	0	63,096	(23,539)	0	(23,539)
Civic center	1,145,819	570,076	0	0	(575,743)	0	(575,743)
Emergency management	12,801	0	0	0	(12,801)	0	(12,801)
Economic development	522,113	0	0	0	(522,113)	0	(522,113)
Total governmental activities	11,555,085	1,678,991	168,267	304,280	(9,403,547)	0	(9,403,547)
Business-type activities:							
Water, sewer and garbage	4,331,926	3,787,094	0	0	0	(544,832)	(544,832)
Totals	\$ 15,887,011	\$ 5,466,085	\$ 168,267	\$ 304,280	(9,403,547)	(544,832)	(9,948,379)
General revenues and other expenses:							
Ad valorem taxes, penalties and interest					4,017,129	760,626	4,777,755
Sales taxes					4,013,615	0	4,013,615
Franchise, occupancy and other taxes					1,043,824	0	1,043,824
Disposal of assets					(14,179)	(35,600)	(49,779)
Aid in construction					0	22,804	22,804
Interest on investments					9,712	2,097	11,809
Operating transfers					418,163	(418,163)	0
Total general revenues and other expenses					9,488,264	331,764	9,820,028
Change in net assets					84,717	(213,068)	(128,351)
Net Assets, September 30, 2013					20,897,331	8,938,062	29,835,393
Net Assets, September 30, 2014					\$ 20,982,048	\$ 8,724,994	\$ 29,707,042

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2014

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Governmental Funds
<u>Assets</u>					
Cash and cash equivalents	\$ 974,724	\$ 1,764,004	\$ 1,531,535	\$ 1,406,629	\$ 5,676,892
Certificates of deposit	319,087	1,668,387	0	186,594	2,174,068
Ad valorem taxes receivable	51,899	0	22,813	0	74,712
Due from other funds	42,921	0	0	0	42,921
Prepaid expenditures	144,554	0	0	0	144,554
Due from other governments	0	9,599	0	0	9,599
<u>Total Assets</u>	<u>1,533,185</u>	<u>3,441,990</u>	<u>1,554,348</u>	<u>1,593,223</u>	<u>8,122,746</u>
<u>Liabilities</u>					
Accounts payable	151,199	22,513	0	35,000	208,712
Other current liabilities	284,438	0	0	0	284,438
Due to other funds	0	19,698	0	23,223	42,921
Deferred revenues	51,899	0	22,813	0	74,712
<u>Total Liabilities</u>	<u>487,536</u>	<u>42,211</u>	<u>22,813</u>	<u>58,223</u>	<u>610,784</u>
<u>Fund Balances</u>					
<u>Restricted for:</u>					
Special purposes		3,399,779			3,399,779
Debt service			1,531,535		1,531,535
Construction of capital assets				1,535,000	1,535,000
<u>Unassigned</u>	<u>1,045,649</u>				<u>1,045,649</u>
<u>Total Fund Balances</u>	<u>1,045,649</u>	<u>3,399,779</u>	<u>1,531,535</u>	<u>1,535,000</u>	<u>7,511,962</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 1,533,185</u>	<u>\$ 3,441,990</u>	<u>\$ 1,554,348</u>	<u>\$ 1,593,223</u>	<u>\$ 8,122,745</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2014

Total fund balances - governmental funds	\$ 7,511,962
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in the operation of the governmental funds are not a financial resource and, therefore, they are not reported in the governmental funds. These assets consist of:	
Land	\$ 1,875,107
Buildings and equipment	18,400,605
Street infrastructure	<u>11,813,800</u>
Total capital assets, net of accumulated depreciation	32,089,512
The revenue from uncollected ad valorem taxes is not a financial resource of the governmental funds and, therefore, it is not reported in the governmental funds.	74,712
The unamortized debt issuance cost is not a financial resource of the governmental funds and, therefore, it is not reported in the governmental funds.	187,069
The portion of the long-term debt that was payable by the Proprietary Fund that was assumed by the governmental funds when the 2011 refunding bonds were issued is not a financial resource of the governmental funds and, therefore it is not reported in the governmental funds.	320,000
The accrued interest payable on long-term debt is not due and payable in the current period and, therefore, it is not reported in the governmental funds.	(42,258)
The certificates of obligation and bonds are not due and payable in the current period and, therefore, they are not reported in the governmental funds.	(12,800,000)
The capital lease obligations are not due and payable in the current period and, therefore, they are not reported in the governmental funds.	(773,491)
The unamortized debt issuance premium is not due and payable in the current period and, therefore, it is not reported in the governmental funds.	(151,665)
The unamortized deferred gain from the issuance of the 2013 Advance Refunding Bonds is not due and payable in the current period and, therefore, it is not reported in the governmental funds.	(88,345)
The accrued compensated absences are not due and payable in the current period and, therefore, they are not reported in the governmental funds.	(845,514)
The unfunded pension obligation is not due and payable in the current period and, therefore, it is not reported in the governmental funds.	<u>(4,499,934)</u>
Total net assets - governmental activities	<u>\$ 20,982,048</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General	Special Revenue	Debt Service	Capital Project	Total Governmental Funds
<u>Revenues</u>					
Ad valorem taxes, penalties and interest	\$ 2,806,902	\$	\$ 1,203,874	\$	\$ 4,010,776
Sales taxes	2,675,742	1,337,873			4,013,615
Franchise, occupancy and other taxes	1,043,824				1,043,824
Interest on investments	2,862	4,339	240	2,271	9,712
Federal programs	0	9,599			9,599
Civic center	570,076				570,076
Building permits and inspection service fees	243,078				243,078
Court	653,160				653,160
Other	486,094	87,661		105,869	679,624
<u>Total Revenues</u>	<u>8,481,738</u>	<u>1,439,472</u>	<u>1,204,114</u>	<u>108,140</u>	<u>11,233,464</u>
<u>Expenditures</u>					
General government	1,120,750				1,120,750
Airport	117,573	9,599			127,172
Main street	147,171	9,320			156,491
Fire protection	1,122,925				1,122,925
Police	2,105,040	46,282			2,151,322
Animal control	73,049				73,049
Street	1,136,982			107,147	1,244,129
Library	475,971				475,971
Tax and court	272,559	18,469			291,028
Parks	464,130				464,130
Planning services	334,578				334,578
Inspection services	292,132				292,132
Cemetery	70,682			35,000	105,682
Civic center	875,971				875,971
Economic development	0	469,215			469,215
Emergency management	12,801				12,801
Capital expenditures	472,735	5,796			478,531
Debt service	0	138,551	1,344,802		1,483,353
<u>Total Expenditures</u>	<u>9,095,049</u>	<u>697,232</u>	<u>1,344,802</u>	<u>142,147</u>	<u>11,279,230</u>
<u>Excess (Deficiency) of</u> <u>Revenues Over Expenditures</u>	<u>(613,311)</u>	<u>742,240</u>	<u>(140,687)</u>	<u>(34,008)</u>	<u>(45,766)</u>
<u>Other Financing Sources</u>					
Operating transfer in	418,163	0	269,267	0	687,430
<u>Other Financing Uses</u>					
Operating transfer out	0	269,267	0	0	269,267
<u>Change in Fund Balances</u>	<u>(195,148)</u>	<u>472,973</u>	<u>128,580</u>	<u>(34,008)</u>	<u>372,397</u>
<u>Fund Balances, September 30, 2013</u>	<u>1,240,797</u>	<u>2,926,806</u>	<u>1,402,955</u>	<u>1,569,007</u>	<u>7,139,565</u>
<u>Fund Balances, September 30, 2014</u>	<u>\$ 1,045,649</u>	<u>\$ 3,399,779</u>	<u>\$ 1,531,535</u>	<u>\$ 1,535,000</u>	<u>\$ 7,511,962</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - governmental funds	\$ 372,397
Amounts reported for governmental activities in the statement of activities are different because:	
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 depreciation (\$1,345,502) exceeded capital expenditures (\$478,531) during the current period.	(866,971)
The debt issuance premiums are recognized in governmental funds in the year the debt is issued but it is amortized over the life of the debt in the statement of activities.	26,742
The debt issuance costs and discounts are recognized in governmental funds in the year the debt is issued, but it is amortized over the life of the debt in the statement of activities.	(22,460)
The gain associated with the advance refunding of the 2004 certificates of obligation is recognized in governmental funds in the year the advance refunding occurs, but is amortized over the life of the debt in the statement of activities.	9,382
The statement of activities reports a gain or loss on the disposal of assets based on the proceeds received and the net book value of the assets at the time of disposal. This is the amount by which the cost of the assets disposed of (\$192,084) exceeded the accumulated depreciation of those assets (\$173,905) in the current year.	(18,179)
The increase in ad valorem taxes receivable does not provide current financial resources and, therefore, is not reported as an increase in revenues in the governmental funds.	6,353
The repayment of debt principal is reported as an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net assets.	973,850
The decrease in accrued interest payable reported in the statement of activities does not increase expenditures in the governmental funds.	3,320
The increase in the net pension liability reported in the statement of activities does not increase expenditures in the governmental funds.	(383,860)
The increase in the accrued compensated absences reported in the statement of activities does not increase expenditures in the governmental funds.	(15,857)
Change in the net assets of governmental activities	<u>\$ 84,717</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2014

<u>Assets</u>	<u>Business-type activities</u> <u>Enterprise Fund</u>
<u>Current Assets</u>	
Cash and cash equivalents, unrestricted	\$ 540,775
Cash and cash equivalents, restricted for debt service	212,305
Cash and cash equivalents, restricted for capital projects	182,911
Ad valorem taxes receivable	14,373
Customer receivables	345,611
	\$ 1,295,975
<u>Capital Assets, net of depreciation</u>	
Land	588,033
Water and sewer distribution systems	14,398,457
	14,986,490
<u>Non-Current Assets</u>	
Debt issuance cost, net of amortization	137,450
	16,419,915
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable	136,441
Other current liabilities	79,067
Internal balances	320,000
Current maturities of long-term debt	556,609
	1,092,117
<u>Non-Current Liabilities</u>	
Long-term debt	6,111,108
Debt issuance premium, net of amortization	213,754
Accrued compensated absences	160,851
Meter deposits	117,091
	6,602,804
	7,694,921
<u>Net Assets</u>	
Invested in capital assets, net of related debt	8,242,469
Restricted for:	
Debt service	165,110
Capital projects	182,911
Unrestricted	134,504
	\$ 8,724,994
	\$ 8,724,994

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Business-type activities</u>	<u>Enterprise Fund</u>
<u>Operating Revenues</u>		
Sales of water	\$	2,091,216
Sewer charges		1,132,567
Garbage charges and other		554,661
		<hr/>
<u>Total Operating Revenues</u>	\$	3,778,444
<u>Operating Expenses</u>		
Public works		144,125
Sewer, plant and operation		775,300
Utility billing		313,518
Water purchases		479,809
Water utilities		883,489
Utility maintenance		510,888
Garbage fees		295,552
Depreciation		642,032
		<hr/>
<u>Total Operating Expenses</u>		4,044,713
		<hr/>
<u>Operating Loss</u>		(266,269)
<u>Nonoperating Revenues (Expenses)</u>		
Ad valorem taxes, interest and penalties		760,626
Interest income		2,097
Aid in construction		22,804
Miscellaneous		8,650
Amortization of bond premium		21,692
Loss on disposal of assets		(35,600)
Amortization of bond issue costs		(13,071)
Debt service and tax collecting fees		(9,290)
Interest expense		(286,544)
		<hr/>
<u>Total Nonoperating Revenues (Expenses)</u>		471,364
		<hr/>
<u>Net Income Before Transfers</u>		205,095
		<hr/>
<u>Operating Transfer Out</u>		(418,163)
		<hr/>
<u>Change in Net Assets</u>		(213,068)
		<hr/>
<u>Net Assets, September 30, 2013</u>		8,938,062
		<hr/>
<u>Net Assets, September 30, 2014</u>	\$	<u>8,724,994</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Cash flows from operating activities:

Cash received from customers	\$ 3,890,385	
Cash payments to suppliers for goods and services	(1,981,047)	
Cash payments to employees and other directly related employment costs	(1,483,384)	
<u>Net cash provided by operating activities</u>		\$ 425,954

Cash flows from noncapital financing activities:

Property taxes received	754,996	
Interest and penalty on property taxes received	4,620	
Net decrease in due to other funds	(38,672)	
Tax assessing and collecting fees	(7,790)	
<u>Net cash provided by noncapital financing activities:</u>		713,154

Cash flows from capital and related financing activities:

Aid in construction	22,804	
Miscellaneous	8,650	
Operating transfer out	(418,163)	
Debt service fees	(1,500)	
Interest paid on long-term debt	(289,987)	
Principal paid on long-term debt	(586,818)	
Acquisition and construction of capital assets	(46,812)	
<u>Net cash used by capital and related financing activities</u>		(1,311,826)

Cash flows from investing activities:

Interest on investments		2,097
<u>Net decrease in cash and cash equivalents</u>		(170,621)
<u>Cash and cash equivalents at the beginning of the year</u>		1,106,612
<u>Cash and cash equivalents at the end of the year</u>		\$ 935,991

Reconciliation of operating loss to net cash

<u>provided by operating activities:</u>		
Operating loss		\$ (266,269)

Adjustments to reconcile operating loss to net cash provided by operating activities:

Depreciation	642,032	
Decrease in customer receivables	112,426	
Decrease in accounts payable	(53,119)	
Decrease in other deposits	(2,500)	
Increase in meter deposits	2,015	
Decrease in accrued compensated absences	(8,631)	

<u>Net cash provided by operating activities</u>		\$ 425,954
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See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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). For its enterprise fund and business-type activities, the City has applied all statements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, except for those that conflict with GASB pronouncements, and has opted not to apply FASB statements issued after November 30, 1989. The following is a summary of the significant policies.

A. 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 City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organizations are legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Decatur has included the Corporation for Economic Development of the City of Decatur, Texas (Corporation) and the Wise County Water Supply District (District) in the financial statements of the City since both entities meet the basic requirements of a component unit.

The financial data of the Corporation has been blended into the governmental-type activities of the City. The Corporation collects a one-half percent sales tax that is available for specific use economic development projects.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A. Description of the Reporting Entity (Continued)

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 Corporation.

The financial data of the District has been blended into the business-type activities of the City. 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 City's financial statements include all City operations but exclude the following entities:

Decatur Independent School District
Housing Authority of the City of Decatur, Texas
Decatur Hospital Authority

These potential component units have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the government. 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.

B. Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of its assets, liabilities, fund equity, revenues, and expenditures. Governmental

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **Basis of Accounting/Measurement Focus (Continued)**

resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities (including Changes in Net Assets). These statements present summaries of Governmental Activities for the City.

These statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and infrastructure as well as long-term debt, are included in the Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Taxes and other items not properly included among program revenues are reported as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for the governmental funds. A schedule is presented to reconcile and explain the

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

B. Basis of Accounting/Measurement Focus (Continued)

differences in net assets as presented in this statement to the net assets presented in the Government-Wide Financial Statements.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except those revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual are property tax, franchise fees, and investment income.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

The City reports the following major governmental funds:

The General Fund is the government’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 component unit of the City that has been included in this fund for financial statement presentation.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

B. Basis of Accounting/Measurement Focus (Continued)

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.

The City reports the following Proprietary Fund:

The Proprietary Fund Financial Statement is prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the Government-Wide Financial Statements. Therefore, most lines on the Proprietary Fund Financial Statement will directly reconcile to the business-type activities column on the Government-Wide Financial Statement. The Wise County Water Supply District has been included in this fund for financial statement presentation.

The Proprietary Fund accounts for the activities of providing water, wastewater treatment and garbage collection services to the residents and businesses of the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of personnel and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. 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. An annual budget is adopted for the General Fund and the Proprietary 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.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the City considers all checking accounts, money market accounts, savings accounts, and certificates of deposit to be cash equivalents.

E. 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.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. 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 estimated market 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.

Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Years</u>
Computers	3
Equipment	5-10
Vehicles	5
Furniture	7-10
Street system	40
Water and sewer system	33
Buildings	40

G. Property Taxes

Property tax revenue is recognized in accordance with GASB Codification Section P70; that is, 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
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

H. Claims and Judgments Payable

The City records a liability for litigation, judgments, and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. The liability, if any, is reported in the Government-Wide Statement of Net Assets. The portion of the liability, which will be liquidated with expendable, available financial resources, if any, is reflected as a liability of applicable governmental funds.

I. 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.

J. 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 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.

The City prorates each employee's annual compensation into thirteen months. The additional thirteenth month is paid to each employee in December.

K. Use of Estimates

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

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

L. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used by the City:

Nonspendable – resources which cannot be spent because they are either not in a spendable form (such as prepaid items) or legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of the resources imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Unassigned – resources which cannot be properly classified in one of the other categories.

NOTE 2 **LEGAL COMPLIANCE**

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the City of Decatur, Texas. The use of budgets and monitoring of equity status facilitate the City's compliance with legal requirements.

Budgetary Process

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to the end of the fiscal year, the City Manager submits to the City Council proposed operating budgets for the fiscal year commencing October 1. The budgets are prepared by fund, function and activity, and include proposed expenditures and the means of financing them.

A public hearing is conducted to obtain taxpayer comments.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 2 **LEGAL COMPLIANCE (Continued)**

Prior to October 1, the budget is legally enacted through passage of an ordinance.

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter total expenditures of any fund (i.e., the legal level of budgetary control) must be approved by the City Council.

The key dates affecting the annual budget for the fiscal year-ended September 30, 2014 were as follows:

City Manager presents the preliminary 2013/2014 budget to the City Council	August 12, 2013
City Council workshop on 2013/2014 budget	August 12, 2013
City Council proposes ad valorem tax rate	August 12, 2013
City Council discussion on 2013/2014 budget	August 26, 2013
First public hearing regarding the 2013/2014 proposed budget and ad valorem tax rate	August 26, 2013
Second public hearing regarding the 2013/2014 proposed budget and ad valorem tax rate	September 3, 2013
City Council adopts the budget for 2013/2014 and the ad valorem tax rate	September 9, 2013
Final assessment roll certified	July 22, 2013
Beginning of fiscal year for which ad valorem taxes are levied	October 1, 2013
Property tax bills rendered	October 1, 2013
Property tax collection dates	October 1, 2013-January 31, 2014
Property tax bills become delinquent	February 1, 2014

The budgets of the General Fund and Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles as applied to that particular fund type.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 3 **DEPOSITS AND INVESTMENTS**

Deposits and investments at September 30, 2014, totaling \$8,785,186 are as follows:

Deposits – At September 30, 2014, the carrying amount of the City’s deposits are \$8,785,186. Of this amount, \$2,555,797 is in certificates of deposits. The bank deposits are covered by federal depository insurance, a Federal Home Loan Bank Irrevocable Standby Letter of Credit in the amount of \$4,000,000 and by collateral held by the State trustee in the custodial bank’s name. The combined federal depository insurance, Standby Letter of Credit and collateral pledged by the custodial banks was in excess of \$8,785,186 at September 30, 2014.

NOTE 4 **AD VALOREM TAXES**

City of Decatur

Ad valorem taxes are levied each October 1st on property valued as of the previous January 1st. The tax rate to finance general governmental services for the fiscal year ended September 30, 2014 was \$.6730 per \$100 of assessed taxable property value. The tax rate was allocated \$.4675 for maintenance and operations and \$.2055 debt service per \$100 of assessed taxable property value. The taxable property value amounted to \$592,421,659. Ad valorem tax revenues are recognized when they become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Wise County Water Supply District (Component Unit)

Ad valorem taxes are levied each October 1 on property valued as of the previous January 1. The tax rate to finance debt service for the fiscal period ended September 30, 2014 was \$.1275 per \$100 of assessed taxable property value. The tax rate is allocated 100% to debt service. The taxable property value amounted to \$592,421,659. Ad valorem tax revenues are recognized when they become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Ad Valorem Taxes Receivable at September 30, 2014

City of Decatur, Texas	\$ 74,712
Wise County Water Supply District	<u>14,373</u>
Total Ad Valorem Taxes Receivable	<u>\$ 89,085</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 5 **CAPITAL ASSETS**

Governmental capital asset activity for the year ended September 30, 2014:

<u>Description</u>	<u>Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 1,875,107	\$ 0	\$ 0	\$ 1,875,107
<u>Other capital assets:</u>				
Airport	6,155,232			6,155,232
Civic center	5,936,641	7,500		5,944,141
Fire equipment	5,431,660			5,431,660
General government	551,074	32,734	22,152	561,656
Library	1,817,670	41,355	55,405	1,803,620
Parks	2,636,399			2,636,399
Police	2,161,356	76,241	36,801	2,200,796
Street equipment	1,033,873	58,500	75,784	1,016,589
Street infrastructure	14,843,365	256,404		15,099,769
Other assets	2,454,943	5,796	1,941	2,458,798
Totals	44,897,320	478,530	192,083	45,183,767
Accumulated Depreciation	(11,922,658)	(1,345,502)	173,905	(13,094,255)
Totals	<u>32,974,662</u>	<u>(866,972)</u>	<u>365,988</u>	<u>32,089,512</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 5 **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the governmental activities as follows for the year ended September 30, 2014:

General government	\$ 14,209
Airport	158,724
Main street	3,734
Fire protection	208,757
Police	118,638
Animal control	788
Streets	471,932
Library	66,637
Tax and court	15,666
Parks	92,184
Inspection services	7,340
Cemetary	2,844
Civic center	124,949
Planning	16,251
Economic Development	<u>42,849</u>
Total	<u>\$ 1,345,502</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 5 **CAPITAL ASSETS (Continued)**

Business-type capital asset activity for the year ended September 30, 2014:

<u>Description</u>	<u>Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 588,033	\$ 0	\$ 0	\$ 588,033
<u>Other capital assets:</u>				
Sewer system	5,562,398		0	5,562,398
Trucks	277,932		1,000	276,932
Equipment	352,312	296,740	42,925	606,127
Office	22,406		0	22,406
New water and sewer lines	3,401,124		69,446	3,331,678
Water meters	416,077	22,804	0	438,881
Treated water distribution system	1,072,662		0	1,072,662
Elevated storage tower	828,723	847	0	829,570
Electrical generators	856,793		0	856,793
Raw water lines and pumps	3,784,772		0	3,784,772
Water treatment plant	6,714,333	23,161	0	6,737,494
Totals	23,877,565	343,552	113,371	24,107,746
Accumulated De depreciation	(8,556,995)	(642,031)	77,771	(9,121,255)
Totals	<u>\$ 15,320,570</u>	<u>\$ (298,479)</u>	<u>\$ 191,142</u>	<u>\$ 14,986,491</u>

Depreciation expense was charged to functions/programs of the business-type activities was \$642,031 for the year ending September 30, 2014.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 6 **PENSION PLAN**

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from the TMRS website at www.TMRS.com.

The plan provisions for the City are adopted by the governing body of the City from the options available in the state statutes governing TMRS. Because the TMRS plan year is a calendar year and the City fiscal year ends on September 30, each fiscal year includes two different TMRS plan years. Plan provisions for the City were as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 6 **PENSION PLAN (Continued)**

Contributions (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Pension Cost and Net Pension Obligation

Annual Required Contribution (ARC)	\$ 788,595
Interest on Net Pension Obligation	0
Adjustment to the ARC	0
Annual Pension Cost (APC)	788,595
Contributions made	788,595
Increase (decrease) in net pension obligation	0
Net Pension Obligation/(Asset), beginning of the year	0
Net Pension Obligation/(Asset), end of the year	\$ 0

Trend Information
Annual Pension Cost

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
9/30/2011	\$727,568	\$727,568	100%	\$0
9/30/2012	\$763,378	\$763,378	100%	\$0
9/30/2013	\$788,595	\$788,595	100%	\$0

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 6 **PENSION PLAN (Continued)**

Contributions (Continued)

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.1 years; closed period	25.1 years; closed period	30.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions: Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

**Schedule of Funding Progress for the Retirement Plan
For the Employees of the City of Decatur, Texas**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2013	\$13,429,769	\$17,929,703	74.9%	\$4,499,934	\$5,454,062	82.5%

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 6 **PENSION PLAN (Continued)**

Contributions (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City has elected to early implement GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and has recorded the actuarially determined net pension liability of \$4,499,993 in the Statement of Net Assets.

NOTE 7 **POST RETIREMENT BENEFITS OTHER THAN PENSIONS**

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

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

The City offers supplemental death to:	Plan Year 2013	Plan Year 2014
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 7 **POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Cont'd)**

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 contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$9,794, \$8,537 and \$8,769, respectively, which equaled the required contributions each year.

NOTE 8 **RISK MANAGEMENT**

The City does not carry police officer professional liability, automobile physical damage or heavy equipment physical damage insurance.

During the past three fiscal years none of the above programs of protection have had settlements or judgments that exceeded the insurance coverage. There have been no significant reductions in the insurance liability coverage from the coverage in the prior year.

NOTE 9 **OPERATING LEASE OBLIGATIONS**

The City has operating agreements with various companies to lease copy machines, computer equipment, cellular telephones, pager airtime and a postage meter.

NOTE 10 **LONG-TERM DEBT**

Governmental-Type Activities

The following is a summary of the long-term debt activity for the year ended September 30, 2014:

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental activities:					
Certificates of obligation, bonds and leases payable:					
Certificates of obligation	\$ 4,995,000	\$ 0	\$ (245,000)	\$ 4,750,000	\$ 490,000
Refunding bonds payable	8,425,000		(375,000)	8,050,000	705,000
Capital lease obligation	873,877	0	(100,386)	773,491	104,949
	<u>14,293,877</u>	<u>0</u>	<u>(720,386)</u>	<u>13,573,491</u>	<u>1,299,949</u>
Deferred gain	97,727		(9,382)	88,345	0
Unamortized bond premium	178,404		(26,739)	151,665	0
	<u>276,131</u>	<u>0</u>	<u>(36,121)</u>	<u>240,010</u>	
Total certificates of obligations, bonds and capital leases	<u>14,570,008</u>	<u>0</u>	<u>(756,507)</u>	<u>13,813,501</u>	<u>1,299,949</u>
Other liabilities:					
Accrued compensated absences	829,658	15,857	0	845,515	0
Net pension liability	4,116,074	383,860	0	4,499,934	0
	<u>4,945,732</u>	<u>399,717</u>	<u>0</u>	<u>5,345,449</u>	<u>0</u>
Total other liabilities	<u>4,945,732</u>	<u>399,717</u>	<u>0</u>	<u>5,345,449</u>	<u>0</u>
Governmental activities; Long- term liabilities	<u>19,515,740</u>	<u>399,717</u>	<u>(756,507)</u>	<u>19,158,950</u>	<u>1,299,949</u>
Business-type activities:					
Bonds and leases payable:					
Bonds payable	6,920,000	0	(485,000)	6,435,000	500,000
Lease payable	37,795	296,740	(101,818)	232,717	56,609
	<u>6,957,795</u>	<u>296,740</u>	<u>(586,818)</u>	<u>6,667,717</u>	<u>556,609</u>
Unamortized bond premium	235,446	0	(21,692)	213,754	0
Total bonds and lease payable	<u>7,193,241</u>	<u>296,740</u>	<u>(608,510)</u>	<u>6,881,471</u>	<u>556,609</u>
Accrued compensated absences	169,482		(8,631)	160,851	0
Meter Deposits	115,076	2,015	0	117,091	0
	<u>284,558</u>	<u>2,015</u>	<u>(8,631)</u>	<u>277,942</u>	<u>0</u>
Total other liabilities	<u>284,558</u>	<u>2,015</u>	<u>(8,631)</u>	<u>277,942</u>	<u>0</u>
Business-type activities; Long- term liabilities	<u>\$ 7,477,799</u>	<u>\$ 298,755</u>	<u>\$ (617,141)</u>	<u>\$ 7,159,413</u>	<u>\$ 556,609</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Tax and Waterworks and Sewer System Revenue
Certificates of Obligation, Series 2008

The proceeds from the issuance of the Certificates of Obligation, Series 2008 (the Certificates) were used for the construction and equipping of a new fire station, improvements and extensions to the City's water treatment facilities, street improvements consisting of; drainage improvements, utility line relocations, sidewalks, curbs and gutters related thereto and the acquisition of land and right-of-ways and professional services rendered in connection with the construction and financing of the aforesaid projects. The principal and interest is payable from the proceeds of continuing direct annual ad valorem tax levied within the limits prescribed by law, against all taxable property within the City and are further secured by and payable from a limited pledge of the surplus net revenues derived from the operation of the City's waterworks and sewer system. The Certificates maturing on or after March 1, 2019, are subject to optional redemption, in whole or in part, on March 1, 2018, or on any date thereafter at a redemption price equal to the principal amount thereof plus accrued interest. The interest rates on the Series 2008 Certificates vary from 4.00% to 4.50%.

Fiscal Year Ending September 30,	March 1,		September 1,		Annual Requirements
	Principal	Interest	Interest		
2015	\$ 255,000	\$ 100,201	\$ 95,101	\$	450,302
2016	265,000	95,101	89,801		449,902
2017	280,000	89,801	84,201		454,002
2018	290,000	84,201	78,401		452,602
2019	300,000	78,401	72,401		450,802
2020-2024	1,705,000	249,842	222,036		2,176,878
2025-2028	1,655,000	138,758	94,163		1,887,921
Totals	<u>\$ 4,750,000</u>	<u>\$ 836,305</u>	<u>\$ 736,104</u>	<u>\$</u>	<u>6,322,409</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Tax and Waterworks and Sewer System Surplus Revenue
Refunding Bonds, Series 2011

On April 19, 2011 the City issued \$6,340,000 of Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds, Series 2011 dated March 15, 2011 with an interest rate that varies from 2.00% to 3.50% to refund the remaining principal balance of \$6,070,000 from the Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds, Series 2006. The net present value savings of refunding the bonds amounted to \$346,032. The City received \$17,427 of accrued interest and a premium of \$233,133 on the issuance of the Tax and Waterworks and Sewer System Surplus Revenue Refunding, Series 2011. The cost of the insurance of the Tax and Waterworks and Sewer System Surplus Revenue Refunding, Series 2011 amounted to \$97,605.

The premium received and the cost of issuance is being amortized over the life of the bonds. The accrued interest was applied against the initial interest payment. The bonds are not subject to redemption prior to their stated maturity. The principal thereof, and the interest thereon are payable from the proceeds of continuing direct annual ad valorem tax levied upon all taxable property within the City without legal limit as to rate or amount and are further secured by and payable from a limited pledge of the surplus net revenues derived from the operation of the City's Waterworks and Sewer System.

Fiscal Year Ending September 30,	March 1,		September 1,		Annual Requirements
	Principal	Interest	Interest		
2015	\$ 705,000	\$ 74,612	\$ 64,038	\$	843,650
2016	725,000	64,038	53,163		842,201
2017	750,000	53,163	41,912		845,075
2018	770,000	41,912	28,438		840,350
2019	800,000	28,438	14,437		842,875
2020	825,000	14,437	0		839,437
Totals	<u>\$ 4,575,000</u>	<u>\$ 276,600</u>	<u>\$ 201,988</u>	<u>\$</u>	<u>5,053,588</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds, Series 2013

On January 28, 2013 the City issued \$3,475,000 of Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds, Series 2013 dated February 15, 2013 with an interest rate that varies from 2.00% to 3.00% to advance refund the remaining principal balance of \$3,530,000 from the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2004. The net proceeds of \$3,710,678 (after payment of \$34,667 in underwriting fees) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 11 years by \$514,762. The net present value savings of refunding the bonds amounted to \$472,832. The City received \$2,687 of accrued interest on the issuance of the Tax and Waterworks and Sewer System Surplus Revenue Refunding, Series 2013. The total cost of the issuance of the Tax and Waterworks and Sewer System Surplus Revenue Refunding, Series 2013 amounted to \$77,246.

The cost of issuance is being amortized over the life of the bonds. The accrued interest was applied against the initial interest payment. The bonds are not subject to redemption prior to their stated maturity. The principal thereof, and the interest thereon are payable from the proceeds of continuing direct annual ad valorem tax levied upon all taxable property within the City without legal limit as to rate or amount and are further secured by and payable from a limited pledge of the surplus net revenues derived from the operation of the City's Waterworks and Sewer System.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Tax and Waterworks and Sewer System Surplus Revenue
Refunding Bonds, Series 2013 (Continued)

Fiscal Year Ending September 30,	<u>March 1,</u>		<u>September 1,</u>	Annual
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Requirements</u>
2015	\$ 315,000	\$ 43,975	\$ 40,825	\$ 399,800
2016	315,000	40,825	37,675	393,500
2017	330,000	37,675	34,375	402,050
2018	335,000	34,375	31,025	400,400
2019	335,000	31,025	27,675	393,700
2020-2024	<u>1,845,000</u>	<u>84,525</u>	<u>56,850</u>	<u>1,986,375</u>
Totals	<u>\$ 3,475,000</u>	<u>\$ 272,400</u>	<u>\$ 228,425</u>	<u>\$ 3,975,825</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Capital Lease Obligation – Industrial Park

The Corporation for Economic Development of the City of Decatur, Texas has entered into a capital lease agreement in the original amount of \$1,500,000 to fund water and sewer line infrastructure improvements at the industrial park. The lease is payable in semiannual installments of \$69,276 beginning July 31, 2006. The City has the option to purchase the infrastructure improvements for the amount of the remaining principal balance plus 1% of the remaining principal balance. The lease is collateralized by a pledge of sales tax revenue. The City retains all risk of loss with respect to the infrastructure improvements. At the conclusion of the lease the City will own the infrastructure improvements. The stated interest rate on the lease is 4.495%.

Fiscal Year Ending September 30,	January 31,		July 31,		Annual Requirements
	Principal	Interest	Principal	Interest	
2015	\$ 51,891	\$ 17,384	\$ 53,058	16,218	\$ 138,551
2016	54,250	15,026	55,469	13,806	138,551
2017	56,716	12,560	57,991	11,285	138,552
2018	59,294	9,982	60,627	8,649	138,552
2019	61,989	7,286	63,382	5,893	138,550
2020-2021	132,560	5,992	66,264	3,012	207,828
Totals	<u>\$ 416,700</u>	<u>\$ 68,230</u>	<u>\$ 356,791</u>	<u>\$ 58,863</u>	<u>\$ 900,584</u>

Interest expense and other financing benefits and costs charged to functions/programs of the governmental activities in the statement of activities as follows:

Civic center	\$ 137,293
Fire protection	208,238
Streets	58,796
Police	29,398
Parks	29,398
Planning	14,698
Inspection services	<u>14,699</u>
Total	<u>\$ 492,520</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

The following is a summary of the long-term debt for the governmental-type activities:

	Total Debt	Current
Certificates of obligation, Series 2008	\$ 4,750,000	\$ 255,000
Refunding bonds, Series 2011	4,575,000	705,000
Refunding bonds, Series 2013	3,475,000	315,000
Capital lease obligation	773,491	104,949
Total long-term debt	\$ 13,573,491	\$ 1,379,949

Business-Type Activities

Wise County Water Supply District Unlimited Tax Bonds, Series 2007

The proceeds from the issuance of the Series 2007 Bonds were used to construct improvements to the District's water supply and distribution facilities, which include improvements to storage facilities, replacement of water lines, improvements to water supply and intake facilities and the acquisition of land and to pay the costs of issuance of the Bonds. The Bonds constitute unlimited tax obligation of the District. The principal thereof, and interest thereon 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. The District reserves the right at its option, to redeem the Unlimited Tax Bonds, Series 2007 maturing July 10, 2018 through July 10, 2024, or at any date after July 10, 2017 at par value thereof plus accrued interest to the date fixed for redemption. Interest rates for the Series 2007 Bonds vary from 4.50% to 5.00%.

Fiscal Year Ending September 30,	January 10, Interest	Principal	July 10, Interest	Annual Requirements
2015	\$ 96,031	\$ 235,000	\$ 96,031	427,062
2016	90,156	245,000	90,156	425,312
2017	84,031	260,000	84,031	428,062
2018	77,531	270,000	77,531	425,062
2019	71,119	285,000	71,119	427,238
2020-2024	216,225	1,270,000	216,225	1,702,450
2025-2027	92,300	1,525,000	92,300	1,709,600
Totals	\$ 727,393	\$ 4,090,000	\$ 727,393	\$ 5,544,786

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

**Wise County Water Supply District, Unlimited Tax Refunding Bonds,
Series 2011**

On April 20, 2011 the District issued \$3,130,000 of Unlimited Tax Refunding Bonds, Series 2011 dated March 15, 2011 with an interest rate that varies from 2.00% to 4.00% to refund the remaining principal balance of \$305,000 from the Unlimited Tax Bonds, Series 1996 and the remaining principal balance of \$2,860,000 from the Unlimited Tax Bonds, Series 2002. The net present value savings of refunding the bonds amounts to \$116,385. The District received \$9,497 of accrued interest and a premium of \$141,333 on the issuance of the Unlimited Tax Refunding Bonds, Series 2011. The cost of the insurance of the Unlimited Tax Refunding Bonds, Series of 2011 amounted to \$65,689.

The premium received and the cost of issuance is being amortized over the life of the bonds. The accrued interest was applied against the initial interest payment. The bonds are not subject to redemption prior to their stated maturity. The principal thereof, and the interest thereon 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.

Fiscal Year Ending September 30,	<u>January 10,</u> Interest	<u>July 10,</u>		Annual Requirements
		Principal	Interest	
2015	\$ 40,994	\$ 265,000	\$ 40,994	346,988
2016	37,019	275,000	37,019	349,038
2017	32,894	275,000	32,894	340,788
2018	28,769	285,000	28,769	342,538
2019	23,781	295,000	23,781	342,562
2020-2022	38,119	950,000	38,119	1,026,238
Totals	<u>\$ 201,576</u>	<u>\$ 2,345,000</u>	<u>\$ 201,576</u>	<u>\$ 2,748,152</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Capital Lease Obligation – Wastewater Equipment

The City of Decatur, Texas has entered into a capital lease agreement in the original amount of \$296,740 to purchase wastewater equipment. The lease is payable in annual installments of \$64,023 beginning January 15, 2014. The City has the option to purchase the equipment for one dollar (\$1) at the end of the lease. The lease is collateralized by the value of the equipment. The net book value of the equipment was \$264,947 at September 30, 2014. The stated interest rate on the lease is 3.125%.

Fiscal Year Ending September 30,	<u>January 15,</u>		Annual
	Principal	Interest	Requirements
2015	\$ 56,609	\$ 7,414	\$ 64,023
2016	53,823	10,200	64,023
2017	60,202	3,821	64,023
2018	62,083	1,940	64,023
Thereafter	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 232,717</u>	<u>\$ 23,375</u>	<u>\$ 256,092</u>

The following is a summary of the long-term debt for the business-type activities:

	<u>Total Debt</u>	<u>Current</u>
Unlimited tax bonds, Series 2007	\$ 4,090,000	\$ 235,000
Unlimited tax refunding bonds, Series 2011	2,345,000	265,000
Capital lease obligation	<u>232,717</u>	<u>56,609</u>
Total long-term debt	<u>\$ 6,667,717</u>	<u>\$ 556,609</u>

Interest expenses and other financing benefits and costs charged to the business-type activities in the statement of activities amounted to \$286,544.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 10 **LONG-TERM DEBT (Continued)**

Current Maturities of Long-Term Debt

The annual requirements to amortize all long-term debt outstanding as of September 30, 2014 including interest payments are as follows:

Fiscal Year Ending September 30,	Governmental-Type Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,379,949	\$ 452,354	\$ 556,609	\$ 281,464	\$ 1,936,558	\$ 733,818
2016	1,414,719	409,435	573,823	264,550	1,988,542	673,985
2017	1,474,707	364,972	595,202	237,671	2,069,909	602,643
2018	1,514,921	316,983	617,083	214,540	2,132,004	531,523
2019	1,560,371	265,556	580,000	189,800	2,140,371	455,356
2020-2024	4,573,824	636,694	2,575,000	580,238	7,148,824	1,216,932
2025-2028	1,655,000	232,921	1,170,000	113,050	2,825,000	345,971
Totals	\$ 13,573,491	\$ 2,678,915	\$ 6,667,717	\$ 1,881,313	\$ 20,241,208	\$ 4,560,228

NOTE 11 **RESTRICTED NET ASSETS**

Restrictions are used to indicate that a portion of the net assets are not available for appropriation or expenditure, or are legally segregated for a specific future use. At September 30, 2014 the City of Decatur has restricted net assets as follows:

Restricted for Special Revenue – Represents amount of resources legally segregated for specific programs.

Restricted for Debt Service – Represents the amount available for payment of long-term debt.

Restricted for Capital Projects – Represents the amount available for capital outlay from the proceeds of the issuance of long-term debt.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 12 **COMMITMENTS AND CONTINGENCIES**

It is the opinion of the City's management that there are no material pending or threatened lawsuits or claims against the City at this time.

The City has several small construction contract obligations for various projects. The Capital Project Fund has the necessary capital available to complete these projects.

NOTE 13 **DUE TO/FROM OTHER FUNDS**

The following is a summary of due to/from others funds at September 30, 2014:

	Due From Other Funds	Due To Other Funds
<u>General Fund:</u>		
Special Revenue Fund	\$ 19,698	\$ 0
Capital Project Fund	23,223	0
General Fund Totals	42,921	0
 <u>Proprietary Fund:</u>		
Debt Service Fund	0	320,000
Proprietary Fund Totals	0	320,000
 <u>Special Revenue Fund:</u>		
General Fund	0	19,698
Special Revenue Fund Totals	0	19,698
 <u>Debt Service Fund:</u>		
Proprietary Fund	320,000	0
 <u>Capital Project Fund:</u>		
General Fund	0	23,223
Totals	\$ 362,921	\$ 362,921

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 13 **DUE TO/FROM OTHER FUNDS (Continued)**

The Special Revenue Fund owes the General Fund \$19,698. This amount represents timing differences in the payment of invoices by the General Fund on behalf of the Special Revenue Fund and the reimbursement by the Special Revenue Fund to the General Fund to repay the debt. The Special Revenue Fund is continually repaying the General Fund.

The Proprietary Fund owes the Debt Service Fund \$320,000. This amount represents the obligation the Proprietary Fund has to the Debt Service Fund to repay its portion of the 2011 refunding bonds. The \$320,000 will be repaid to the Debt Service Fund during the subsequent year.

The Capital Projects Fund owes the General Fund \$23,223. This amount represents money that was collected by the Capital Projects Fund on behalf of the General Fund. The \$23,223 will be repaid to the General Fund during the subsequent year.

NOTE 14 **OPERATING TRANSFERS**

The following is a summary of operating transfers for the year ended September 30, 2014:

	Transfer To	Transfer From
General Fund	\$ 418,163	\$ 0
Proprietary Fund	0	418,163
Debt Service Fund	269,267	0
Special Revenue Fund	0	269,267
 Total Operating Transfers	 \$ 687,430	 \$ 687,430

The operating transfers from the Economic Development Corporation of the City of Decatur, Texas (EDC) which is reported as a component unit of the Special Revenue Fund. The EDC transfers represent the EDC's commitment to fund a specific debt issue of the City. This commitment ends when the specific debt issue is satisfied.

The Proprietary Fund transferred \$418,163 to the General Fund to assist in covering operating costs of the General Fund.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(CONTINUED)

NOTE 15 **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following is a summary of the excess of General Fund expenditures over appropriations:

Expenditures	\$ (10,296,696)
Appropriations	<u>10,273,362</u>
Excess of expenditures over appropriations	<u>\$ (23,334)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DECATUR, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual	Adjustments To Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues						
Ad valorem taxes, penalties and interest	\$ 3,989,475	\$ 3,989,475	\$ 2,806,902 (1)	\$ 1,201,647	\$ 4,008,549	\$ 19,074
Sales taxes	2,545,000	2,545,000	2,675,742		2,675,742	130,742
Franchise, occupancy and other taxes	1,031,000	1,031,000	1,043,824		1,043,824	12,824
Interest on investments	3,000	3,000	2,862		2,862	(138)
Civic center	567,440	567,440	570,076		570,076	2,636
Building permits and inspection service fees	264,000	264,000	243,078		243,078	(20,922)
Court	635,000	635,000	653,160		653,160	18,160
Other	559,575	559,575	486,094		486,094	(73,481)
Total Revenues	9,594,490	9,594,490	8,481,738	1,201,647	9,683,385	88,895
Expenditures						
General government	1,093,213	1,093,213	1,120,750		1,120,750	(27,537)
Airport	124,498	124,498	117,573		117,573	6,925
Main street	140,658	140,658	147,171		147,171	(6,513)
Fire	1,130,838	1,130,838	1,122,925		1,122,925	7,913
Police	2,288,666	2,288,666	2,105,040		2,105,040	183,626
Animal control	73,669	73,669	73,049		73,049	620
Street	1,220,934	1,220,934	1,136,982		1,136,982	83,952
Library	541,806	541,806	475,971		475,971	65,835
Tax and court	269,893	269,893	272,559		272,559	(2,666)
Parks	439,647	439,647	464,130		464,130	(24,483)
Planning services	370,114	370,114	334,578		334,578	35,536
Inspection services	333,199	333,199	292,132		292,132	41,067
Cemetery	68,777	68,777	70,682		70,682	(1,905)
Civic center	907,570	907,570	875,971		875,971	31,599
Economic Development (EDC)	0	0	0		0	0
Emergency management	22,574	22,574	12,801		12,801	9,773
Capital expenditures	57,500	57,500	472,735		472,735	(415,235)
Total Expenditures	9,083,556	9,083,556	9,095,049	0	9,095,049	(11,493)
Excess (Deficiency) of Revenues						
Over Expenditures	510,934	510,934	(613,311) (1)	1,201,647	588,336	77,402
Other Financing Sources (Uses)						
Operating transfer in	543,563	543,563	418,163	0	418,163	(125,400)
Operating transfer out	(1,189,806)	(1,189,806)	0	(1,201,647)	(1,201,647)	(11,841)
Total Other Sources	(646,243)	(646,243)	418,163	(1,201,647)	(783,484)	(137,241)
Changes in Fund Balance	(135,309)	(135,309)	(195,148)	0	(195,148)	(59,839)
Fund Balance, September 30, 2013	1,045,649	1,045,649	1,045,649	0	1,045,649	0
Fund Balance, September 30, 2014	\$ 910,340	\$ 910,340	\$ 850,501	\$ 1,201,647	\$ 850,501	\$ (59,839)

(1) The City budgets the collection of property taxes in the General Fund for both maintenance and operations and interest and sinking purposes. After the property taxes are collected, the General Fund transfers to the Debt Service Fund the interest and sinking portion of the property taxes.

CITY OF DECATUR, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Texas Municipal Retirement System (TMRS)

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2)-(1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2011	\$10,326,312	\$14,680,536	70.3%	\$4,354,224	\$4,977,179	87.5%
12/31/2012	\$11,830,044	\$15,946,118	74.2%	\$4,116,074	\$5,323,007	77.3%
12/31/2013	\$13,429,769	\$17,929,703	74.9%	\$4,499,934	\$5,454,062	82.5%

See accompanying notes to financial statements.

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

M. Scott Siegmund, LLC
Certified Public Accountants

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

To the Mayor and City Council
City of 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 the major funds of the City of Decatur, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Decatur, Texas basic financial statements and have issued my report thereon dated February 20, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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


M. Scott Siegmund, LLC
Certified Public Accountants

February 20, 2015