

CITY OF DECATUR, TEXAS

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2013

CITY OF DECATUR, TEXAS
ANNUAL FINANCIAL AUDIT REPORT
SEPTEMBER 30, 2013

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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, 2013, 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 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.

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 of 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.

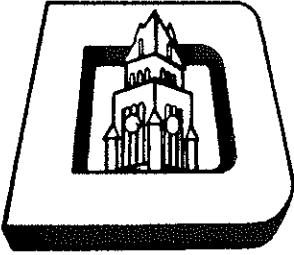
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Decatur, Texas, as of September 30, 2013, and the respective changes in 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.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, 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's internal control over financial reporting and compliance.

M. Scott Siegmund, LLC
Certified Public Accountants

March 14, 2014



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, 2013. The analysis should be read in conjunction with the financial statements that follow.

Financial Highlights

- The City's governmental activities net assets increased by \$909 thousand from 2012. The business-type activities net assets increased by \$421 thousand from 2012. The City's combined net assets increased by \$1.3 million from 2012.
- During fiscal year 2013, the City had expenses/expenditures that totaled \$14.7 million of which \$10.4 million was for governmental activities and \$4.3 million was for business-type activities.
- The Governmental Funds reported a decrease in fund balance of \$169 thousand. Governmental Fund revenues decreased \$262 thousand from 2012 and the expenditures decreased \$92 thousand from 2012.

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 controls 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, 2013 follows:

	Governmental Activities		Business-Type Activities		Government Totals	
	2013	2012	2013	2012	2013	2012
Cash	\$ 7,469	\$ 7,201	\$ 1,107	\$ 1,144	\$ 8,576	\$ 8,345
Other assets	657	1,079	263	(144)	920	935
Capital assets (net)	32,975	33,586	15,320	15,823	48,295	49,409
Total assets	<u>41,101</u>	<u>41,866</u>	<u>16,690</u>	<u>16,823</u>	<u>57,791</u>	<u>58,689</u>
Other liabilities	1,155	1,788	797	804	1,952	2,592
Unfunded pension liability	4,116	4,354	0	0	4,116	4,354
Long-term debt	14,933	15,736	6,955	7,502	21,888	23,238
Total liabilities	<u>20,204</u>	<u>21,878</u>	<u>7,752</u>	<u>8,306</u>	<u>27,956</u>	<u>30,184</u>
Net assets:						
Invested in capital assets, net of related debt	18,361	17,389	8,278	8,349	26,639	25,738
Restricted	5,872	5,626	379	449	6,251	6,075
Unrestricted	(3,336)	(3,027)	281	(281)	(3,055)	(3,308)
Total net assets	<u>\$ 20,897</u>	<u>\$ 19,988</u>	<u>\$ 8,938</u>	<u>\$ 8,517</u>	<u>\$ 29,835</u>	<u>\$ 28,505</u>

Governmental Activities:

The net assets of the City's governmental activities totaled \$20.9 million and increased by \$909 thousand from 2012. 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, \$6.3 million, represents resources that are subject to external restrictions on how they may be used. During 2013, 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 \$8.9 million and increased by \$421 thousand from 2012.

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	
	2013	2012	2013	2012	2013	2012
<u>Revenues:</u>						
<u>Program Revenues:</u>						
Charges for services	\$ 1,759	\$ 1,743	\$ 3,938	\$ 3,948	\$ 5,697	\$ 5,691
Grants and Contributions	477	784	0	0	477	784
<u>Total Program Revenues</u>	<u>2,236</u>	<u>2,527</u>	<u>3,938</u>	<u>3,948</u>	<u>6,174</u>	<u>6,475</u>
<u>General Revenues:</u>						
Taxes	9,100	8,829	761	768	9,861	9,597
Other	1	72	9	(5)	10	67
Interest	13	10	2	3	15	13
<u>Total General Revenues</u>	<u>9,114</u>	<u>8,911</u>	<u>772</u>	<u>766</u>	<u>9,886</u>	<u>9,677</u>
<u>Total Revenues</u>	<u>11,350</u>	<u>11,438</u>	<u>4,710</u>	<u>4,714</u>	<u>16,060</u>	<u>16,152</u>
<u>Expenses:</u>						
General government	837	1,156	0	0	837	1,156
Police	2,222	2,219	0	0	2,222	2,219
Fire	1,618	1,712	0	0	1,618	1,712
Streets	1,515	1,586	0	0	1,515	1,586
Civic Center	1,169	1,203	0	0	1,169	1,203
Other	3,082	2,983	0	0	3,082	2,983
Water and Sewer	0	0	4,287	4,393	4,287	4,393
<u>Total Expenses</u>	<u>10,443</u>	<u>10,859</u>	<u>4,287</u>	<u>4,393</u>	<u>14,730</u>	<u>15,252</u>
<u>Transfers:</u>	<u>2</u>	<u>(330)</u>	<u>(2)</u>	<u>330</u>	<u>0</u>	<u>0</u>
Change in net assets	909	249	421	651	1,330	900
Beginning net assets	19,988	19,739	8,517	7,866	28,505	27,605
Ending net assets	<u>\$ 20,897</u>	<u>\$ 19,988</u>	<u>\$ 8,938</u>	<u>\$ 8,517</u>	<u>\$ 29,835</u>	<u>\$ 28,505</u>

Management's Discussion and Analysis (Continued)

Governmental Activities:

The City's governmental activities revenue for 2013 totaled \$11.3 million and decreased by \$100 thousand from 2012. The governmental activities expenditures for 2013 totaled \$10.4 million and decreased by \$416 thousand from 2012. Overall governmental activities reported an increase in net assets of \$909 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 2013 totaled \$4.7 million and decreased \$4 thousand from 2012. The business-type expenses for 2013 totaled \$4.3 million, and decreased by \$106 thousand from 2012. Overall the business-type activities remained flat from the previous year.

Capital Assets and Debt Administration

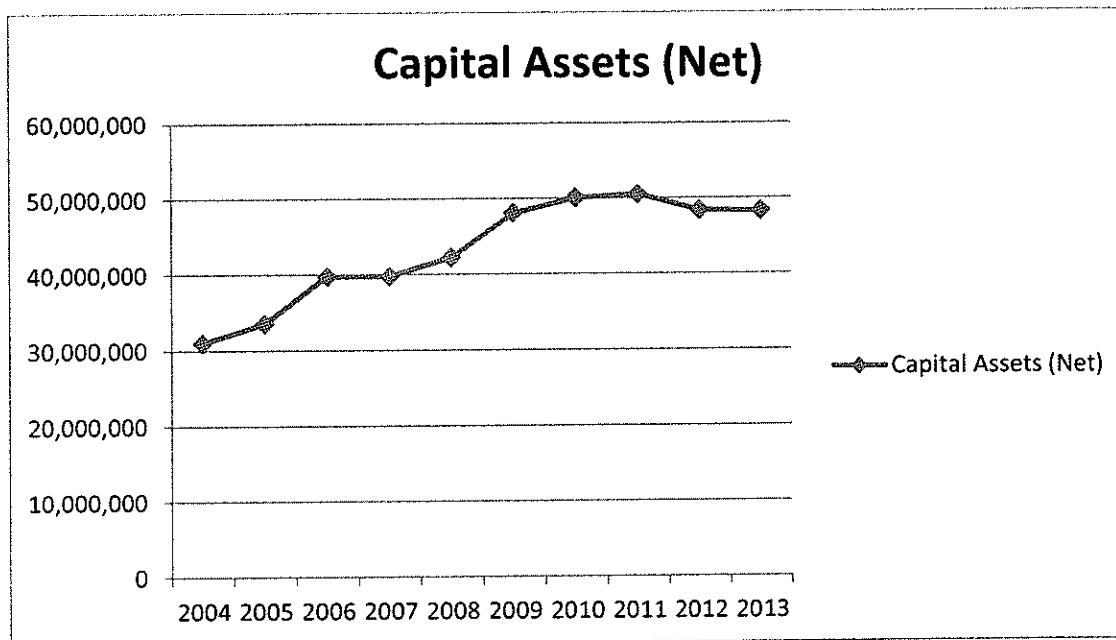
Capital Assets:

At September 30, 2013, the City had \$68.8 million invested in capital assets. This amount represents an increase of \$803 thousand from 2012. 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 2013, the City made improvements to the street infrastructure, improvements to the civic center and purchased vehicles and equipment. The major addition during the year was the audio and visual equipment and new signage at the Civic Center. The increase in capital assets indicates a strong financial position for the City. The City had a net decrease (additions, deductions and depreciation) in capital assets of \$1.1 million from 2012.

Management's Discussion and Analysis (Continued)

Capital Assets at Year-End (in Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,875	\$ 1,875	\$ 0	\$ 0	\$ 1,875	\$ 1,875
Airport	6,155	6,070	0	0	6,155	6,070
Civic center	5,937	5,716	0	0	5,937	5,716
Fire equipment	5,432	5,412	0	0	5,432	5,412
General government	551	519	0	0	551	519
Library	1,818	1,822	0	0	1,818	1,822
Parks	2,636	2,616	0	0	2,636	2,616
Police	2,161	2,039	0	0	2,161	2,039
Street equipment	1,034	1,008	0	0	1,034	1,008
Street infrastructure	14,843	15,751	0	0	14,843	15,751
Other	2,455	1,378	0	0	2,455	1,378
Water and sewer systems	0	0	23,878	23,766	23,878	23,766
Subtotal	44,897	44,206	23,878	23,766	68,775	67,972
Accumulated depreciation	(11,923)	(10,620)	(8,557)	(7,943)	(20,480)	(18,563)
Capital assets, net	<u>\$ 32,974</u>	<u>\$ 33,586</u>	<u>\$ 15,321</u>	<u>\$ 15,823</u>	<u>\$ 48,295</u>	<u>\$ 49,409</u>



Management's Discussion and Analysis (Continued)

Debt Outstanding:

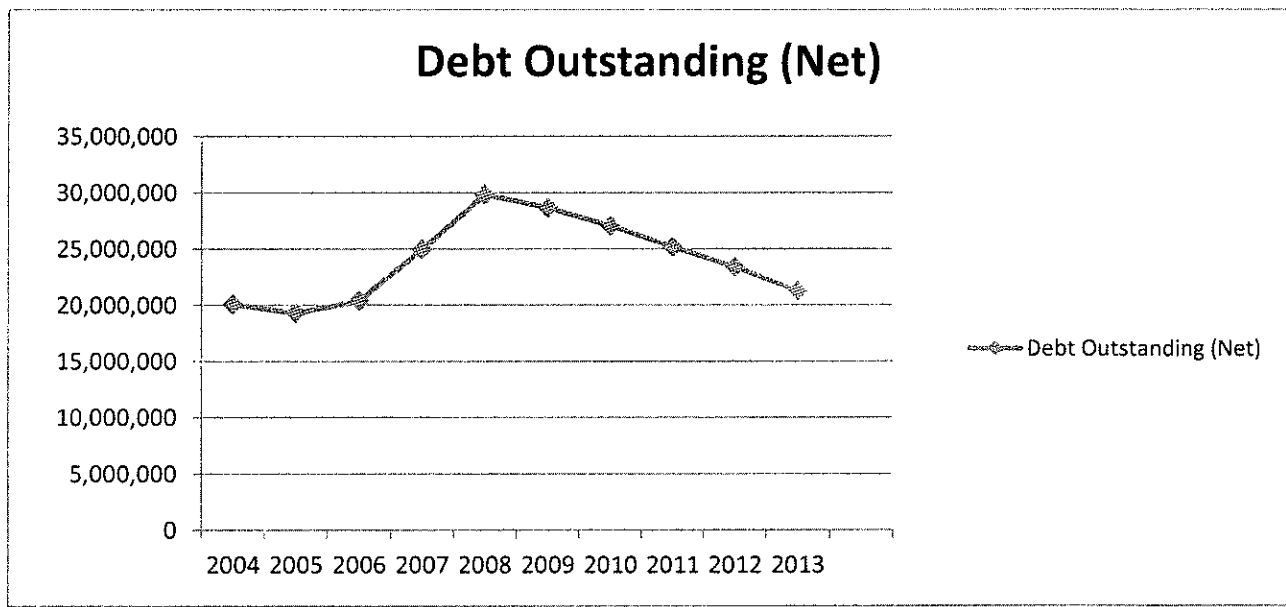
At year end, the City's debt totaled \$21.2 million and decreased by \$2.1 million from 2012. During the year the City advance refunded the 2004 Certificates of Obligation by issuing 2013 Revenue refunding bonds. This refinance will save the City \$515 thousand dollars in interest. The net present value of the savings in interest is \$473 thousand dollars. Moody's Investor Services, the municipal debt rating company, reaffirmed the City's A-1 credit rating. 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 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	
	2013	2012	2013	2012	2013	2012
2004 Certificates of obligation	\$ 0	\$ 4,055	\$ 0	\$ 0	\$ 0	\$ 4,055
2008 Certificates of obligation	4,995	5,230	0	0	4,995	5,230
2011 Revenue refunding bonds	4,950	5,655	0	0	4,950	5,655
2013 Revenue refunding bonds	3,475	0	0	0	3,475	0
Capital Lease obligations	874	970	38	111	912	1,081
2002 Unlimited tax and revenue bonds	0	0	4,315	4,530	4,315	4,530
2007 Unlimited tax and revenue bonds	0	0	2,605	2,850	2,605	2,850
Total Debt Outstanding	\$ 14,294	\$ 15,910	\$ 6,958	\$ 7,491	\$ 21,252	\$ 23,401

Management's Discussion and Analysis (Continued)



Economic Factors and Next Year's Budgets and Rates

The annual budget is developed to provide efficient, effective and economic uses of the City's 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, 2013, the City Council and Management considered the following factors:

- Ad Valorem tax revenues are budgeted to increase due to slightly higher certified values.
- Sales tax, hotel/motel taxes are expected to increase.
- Water and sewer revenues are anticipated to remain flat.
- Expenditures are budgeted to increase due to increased health cost, professional services and utilities.
- Capital expenditures included the purchase of equipment, vehicles, civic center improvements and infrastructure improvements.

The City routinely sets aside resources to deal with swings 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, investor, and creditor) 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, 2013

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets</u>			
Cash and cash equivalents, unrestricted	\$ 1,535,614	\$ 675,994	\$ 2,211,608
Cash and cash equivalents, restricted for special revenues	2,937,800	0	2,937,800
Cash and cash equivalents, restricted for debt service	1,402,956	227,218	1,630,174
Cash and cash equivalents, restricted for capital projects	1,592,230	203,400	1,795,630
Ad valorem taxes receivable	68,359	13,362	81,721
Prepaid items	2,352	0	2,352
Customer receivables	0	458,038	458,038
Internal balances	358,672	(358,672)	0
Due from other governments	18,880	0	18,880
<u>Total Current Assets</u>	<u>7,916,863</u>	<u>1,219,340</u>	<u>9,136,203</u>
<u>Capital Assets, net of depreciation</u>			
Land	1,875,107	588,033	2,463,140
Buildings and equipment	19,121,147	0	19,121,147
Street infrastructure	11,978,407	0	11,978,407
Water and sewer distribution systems	0	14,732,536	14,732,536
<u>Total Capital Assets, net of depreciation</u>	<u>32,974,661</u>	<u>15,320,569</u>	<u>48,295,230</u>
<u>Non-Current Assets</u>			
Debt issuance cost, net of amortization	209,529	150,521	360,050
<u>Total Non-Current Assets</u>	<u>209,529</u>	<u>150,521</u>	<u>360,050</u>
<u>Total Assets</u>	<u>41,101,053</u>	<u>16,690,430</u>	<u>57,791,483</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable	187,374	189,559	376,933
Other current liabilities	247,144	85,010	332,154
Current maturities of long-term debt	720,386	522,795	1,243,181
<u>Total Current Liabilities</u>	<u>1,154,904</u>	<u>797,364</u>	<u>1,952,268</u>
<u>Non-Current Liabilities</u>			
Long-term debt	13,573,491	6,435,000	20,008,491
Debt issuance premium, net of amortization	431,868	235,446	667,314
Deferred gain, 2013 advance refunding bonds	97,727	0	97,727
Accrued compensated absences	829,658	169,482	999,140
Net pension liability	4,116,074	0	4,116,074
Meter deposits	0	115,076	115,076
<u>Total Non-Current Liabilities</u>	<u>19,048,818</u>	<u>6,955,004</u>	<u>26,003,822</u>
<u>Total Liabilities</u>	<u>20,203,722</u>	<u>7,752,368</u>	<u>27,956,090</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	18,360,719	8,277,849	26,638,568
Restricted for:			
Special revenue	2,920,260	0	2,920,260
Debt service	1,383,607	175,570	1,559,177
Capital projects	1,569,007	203,400	1,772,407
Unrestricted	(3,336,262)	281,243	(3,055,019)
<u>Total Net Assets</u>	<u>\$ 20,897,331</u>	<u>\$ 8,938,062</u>	<u>\$ 29,835,393</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	\$ 836,510	\$ 48,826	\$ 24,000	\$ 0	\$ (763,684)	\$ 0	\$ (763,684)
Airport	307,868	70,625	18,880	70,717	(147,646)		(147,646)
Main street	144,268	0	9,217	0	(135,051)		(135,051)
Fire protection	1,618,007	1,574	65,311	0	(1,551,122)		(1,551,122)
Police	2,222,284	0	32,768	0	(2,189,516)		(2,189,516)
Animal control	72,452	2,028	0	0	(70,424)		(70,424)
Streets	1,515,443	0	0	195,207	(1,320,236)		(1,320,236)
Library	554,352	69,229	3,597	0	(481,526)		(481,526)
Tax and court	300,971	707,153	0	33,729	439,911		439,911
Parks	543,419	0	5,421	0	(537,998)		(537,998)
Planning	370,817	15,452	0	0	(355,365)		(355,365)
Inspection services	310,607	218,990	0	0	(91,617)		(91,617)
Cemetery	83,663	45,072	0	18,240	(20,351)		(20,351)
Civic center	1,169,255	579,821	0	0	(589,434)		(589,434)
Emergency management	11,898	0	0	0	(11,898)		(11,898)
Economic development	382,168	0	0	0	(382,168)		(382,168)
Total governmental activities	10,443,982	1,758,770	159,194	317,893	(8,208,125)	0	(8,208,125)
Business-type activities:							
Water, sewer and garbage	4,286,755	3,937,852	0	0	0	(348,903)	(348,903)
Totals	\$ 14,730,737	\$ 5,696,622	\$ 159,194	\$ 317,893	(8,208,125)	(348,903)	(8,557,028)
General revenues and other expenses:							
Ad valorem taxes					3,978,112	761,180	4,739,292
Sales taxes					4,044,325	0	4,044,325
Franchise, occupancy and other taxes					1,077,956	0	1,077,956
Disposal of assets					968	0	968
Aid in construction					0	9,225	9,225
Investment income					13,152	2,673	15,825
Operating transfers					2,598	(2,598)	0
Total general revenues and other expenses					9,117,111	770,480	9,887,591
Change in net assets					908,986	421,577	1,330,563
<u>Net Assets, September 30, 2012</u>					19,988,345	8,516,485	28,504,830
<u>Net Assets, September 30, 2013</u>					\$ 20,897,331	\$ 8,938,062	\$ 29,835,393

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2013

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 1,216,971	\$ 1,270,493	\$ 1,402,956	\$ 1,415,146	\$ 5,305,566
Certificates of deposit	318,643	1,667,307	0	177,084	2,163,034
Ad valorem taxes receivable	48,676	0	19,683	0	68,359
Account receivable	0	0	0	0	0
Due from other funds	88,996	0	0	0	88,996
Prepaid expenditures	2,352	0	0	0	2,352
Due from other governments	0	18,880	0	0	18,880
<u>Total Assets</u>	<u>1,675,638</u>	<u>2,956,680</u>	<u>1,422,639</u>	<u>1,592,230</u>	<u>7,647,187</u>
<u>Liabilities</u>					
Accounts payable	184,602	2,772	0	0	187,374
Other current liabilities	201,565	0	0	0	201,565
Due to other funds	0	27,101	0	23,223	50,324
Deferred revenues	48,676	0	19,683	0	68,359
<u>Total Liabilities</u>	<u>434,843</u>	<u>29,873</u>	<u>19,683</u>	<u>23,223</u>	<u>507,622</u>
<u>Fund Balances</u>					
<u>Restricted for:</u>					
Special purposes		2,926,807			2,926,807
Debt service			1,402,956		1,402,956
Construction of capital assets				1,569,007	1,569,007
<u>Unassigned</u>	<u>1,240,795</u>				<u>1,240,795</u>
<u>Total Fund Balances</u>	<u>1,240,795</u>	<u>2,926,807</u>	<u>1,402,956</u>	<u>1,569,007</u>	<u>7,139,565</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 1,675,638</u>	<u>\$ 2,956,680</u>	<u>\$ 1,422,639</u>	<u>\$ 1,592,230</u>	<u>\$ 7,647,187</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, 2013

Total fund balances - governmental funds	\$ 7,139,565
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	19,121,147
Street infrastructure	<u>11,978,407</u>
Total capital assets, net of accumulated depreciation	32,974,661
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.	68,359
The unamortized debt issuance cost is not a financial resource of the governmental funds and, therefore, it is not reported in the governmental funds.	209,529
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.	(45,579)
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.	(13,420,000)
The capital lease obligations are not due and payable in the current period and, therefore, they are not reported in the governmental funds.	(873,877)
The unamortized debt issuance premium is not due and payable in the current period and, therefore, it is not reported in the governmental funds.	(431,868)
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.	(97,727)
The accrued compensated absences are not due and payable in the current period and, therefore, they are not reported in the governmental funds.	(829,658)
The unfunded pension obligation is not due and payable in the current period and, therefore, it is not reported in the governmental funds.	<u>(4,116,074)</u>
Total net assets - governmental activities	<u><u>\$ 20,897,331</u></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, 2013

	General	Special Revenue	Debt Service	Capital Project	Total Governmental Funds
Revenues					
Ad valorem taxes, penalties and interest	\$ 2,779,558	\$	\$ 1,188,784	\$	\$ 3,968,342
Sales taxes	2,696,217	1,348,108			4,044,325
Franchise, occupancy and other taxes	1,077,956				1,077,956
Interest on investments	3,114	4,470	3,222	2,346	13,152
Federal programs	0	89,596			89,596
Civic center	579,821				579,821
Building permits and inspection service fees	218,990				218,990
Court	707,153				707,153
Other	499,590	80,927		64,286	644,803
Total Revenues	8,562,399	1,523,101	1,192,006	66,632	11,344,138
Expenditures					
General government	1,062,845				1,062,845
Airport	147,540	13,801			161,341
Main street	132,463	8,902			141,365
Fire	1,196,439				1,196,439
Police	2,044,216	12,743			2,056,959
Animal control	71,507				71,507
Street	1,017,297			3,643	1,020,940
Library	478,108	0		6,801	484,909
Tax and corporation court	251,676	26,373			278,049
Parks	429,806				429,806
Planning services	344,806				344,806
Inspection services	293,084				293,084
Cemetery	63,545	602		16,548	80,695
Civic center	917,485				917,485
Economic development	928	346,541			347,469
Emergency management	11,898				11,898
Capital expenditures	619,426	106,807			726,233
Debt service	0	138,551	1,644,287		1,782,838
Total Expenditures	9,083,069	654,320	1,644,287	26,992	11,408,668
Excess (Deficiency) of Revenues Over Expenditures	(520,670)	868,781	(452,281)	39,640	(64,530)
Other Financing Sources					
Proceeds from issuance of advance refunding bonds			3,475,000		3,475,000
Premium on issuance of advance refunding bonds			267,658		267,658
Accrued interest on issuance of advance refunding bonds			2,687		2,687
Operating transfer in	208,662		634,073	92,000	934,735
Total Other Financing Sources	208,662	0	4,379,418	92,000	4,680,080
Other Financing Uses					
Payment to refunded bond escrow agent			3,775,635		3,775,635
Advance refunding bonds issuance costs			77,246		77,246
Operating transfer out	92,000	840,138	0		932,138
Total Other Financing Uses	92,000	840,138	3,852,881	0	4,785,019
Change in Fund Balance	(404,008)	28,643	74,256	131,640	(169,469)
Fund Balances, September 30, 2012	1,644,805	2,898,163	1,328,699	1,437,367	7,309,034
Fund Balances, September 30, 2013	\$ 1,240,797	\$ 2,926,806	\$ 1,402,955	\$ 1,569,007	\$ 7,139,565

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, 2013

Net change in fund balances - governmental funds	\$ (169,469)
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 (\$1,334,083) exceeded capital expenditures (\$726,234) in the current period.	(607,849)
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. This is the amount by which the current year premium received on the issuance of the 2013 advance refunding bonds (\$267,658) exceeded the amortization (\$43,876) in the current period.	(223,782)
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. This the amount by which the current year debt issuance costs (\$77,246) exceeded the amortization (\$19,536) in the current period.	57,710
The gain association 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. This is the amount by which the gain on the advance refunding of the 2004 certificates of obligation (\$24,366) exceeded the amortization (\$5,473) in the current year.	(18,893)
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 (\$35,376) exceeded the accumulated depreciation of those assets (\$31,838) in the current year.	(3,538)
The increase in ad valorem taxes receivable does not provide current financial resources and, therefore, is not reported as a increase in revenues in the governmental funds.	9,771
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(3,475,000)
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.	1,291,021
The payment to the refunded bond escrow uses current financial resources in governmental funds, but principal payments reduce long-term liabilities in the statement of net assets.	3,800,000
The decrease in accrued interest payable reported in the statement of activities does not reduce expenditures in the governmental funds	10,172
The decrease in the net pension liability reported in the statement of activities does not reduced expenditures in the governmental funds.	238,150
The decrease in the accrued compensated absences reported in the statement of activities does not reduce expenditures in the governmental funds.	693
Change in the net assets of governmental activities	<u>\$ 908,986</u>

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2013

<u>Assets</u>	<u>Business-type activities</u> <u>Enterprise Fund</u>
<u>Current Assets</u>	
Cash and cash equivalents, unrestricted	\$ 675,994
Cash and cash equivalents, restricted for debt service	227,218
Cash and cash equivalents, restricted for capital projects	203,400
Ad valorem taxes receivable	13,362
Customer receivables	458,038
	\$ 1,578,012
<u>Capital Assets, net of depreciation</u>	
Land	588,033
Water and sewer distribution systems	14,732,536
	15,320,569
<u>Non-Current Assets</u>	
Debt issuance cost, net of amortization	150,521
	17,049,102
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable	189,559
Other current liabilities	85,010
Internal balances	358,672
Current maturities of long-term debt	522,795
	1,156,036
<u>Non-Current Liabilities</u>	
Long-term debt	6,435,000
Debt issuance premium, net of amortization	235,446
Accrued compensated absences	169,482
Meter deposits	115,076
	6,955,004
	8,111,040
<u>Net Assets</u>	
Invested in capital assets, net of related debt	8,277,849
Restricted for:	
Debt service	175,570
Capital projects	203,400
Unrestricted	281,243
	\$ 8,938,062
	\$ 8,938,062

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type activities	
	<u>Enterprise Fund</u>	
<u>Operating Revenues</u>		
Sales of water	\$ 2,290,912	
Sewer charges	1,127,657	
Garbage charges and other	510,161	
	<hr/>	
<u>Total Operating Revenues</u>		\$ 3,928,730
<u>Operating Expenses</u>		
Public works	146,916	
Sewer, plant and operation	755,422	
Utility billing	272,571	
Water purchases	440,264	
Water utilities	925,585	
Utility maintenance	518,602	
Garbage fees	313,940	
Depreciation	613,513	
	<hr/>	
<u>Total Operating Expenses</u>		<hr/> 3,986,813
<u>Operating Loss</u>		(58,083)
<u>Nonoperating Revenues (Expenses)</u>		
Ad valorem taxes, interest and penalties	761,180	
Interest income	2,673	
Aid in construction	9,225	
Miscellaneous	9,122	
Amortization of bond premium	21,692	
Amortization of bond issue costs	(13,071)	
Debt service and tax collecting fees	(7,887)	
Interest expense	(300,676)	
	<hr/>	
<u>Total Nonoperating Revenues (Expenses)</u>		<hr/> 482,258
<u>Net Income Before Transfers</u>		424,175
<u>Operating Transfer In</u>		<hr/> (2,598)
<u>Change in Net Assets</u>		421,577
<u>Net Assets, September 30, 2012</u>		<hr/> 8,516,485
<u>Net Assets, September 30, 2013</u>		<hr/> <hr/> \$ 8,938,062

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Cash flows from operating activities:

Cash received from customers	\$ 3,904,246	
Cash payments to suppliers for goods and services	(1,917,509)	
Cash payments to employees and other directly related employment costs	(1,448,500)	
<u>Net cash provided by operating activities</u>		\$ 538,237

Cash flows from noncapital financing activities:

Property taxes received	758,064	
Proceeds from redemption of certificate of deposit	11,970	
Interest and penalty on property taxes received	5,927	
Net decrease in due to other funds	(401,259)	
Tax assessing and collecting fees	(6,887)	
<u>Net cash provided by noncapital financing activities:</u>		367,815

Cash flows from capital and related financing activities:

Aid in construction	9,225	
Miscellaneous	9,122	
Operating transfer out	(2,598)	
Debt service fees	(1,000)	
Interest paid on long-term debt	(303,950)	
Principal paid on long-term debt	(533,202)	
Acquisition and construction of capital assets	(111,526)	
<u>Net cash used by capital and related financing activities</u>		(933,929)

Cash flows from investing activities:

Interest on investments		2,673
Net decrease in cash and cash equivalents		(25,204)
Cash and cash equivalents at the beginning of the year		1,131,816
Cash and cash equivalents at the end of the year		\$ 1,106,612

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss		\$ (58,083)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		613,513
Increase in customer receivables		(21,433)
Increase in accounts payable		3,812
Increase in other deposits		2,653
Increase in meter deposits		(8,051)
Increase in accrued compensated absences		5,826
<u>Net cash provided by operating activities</u>		\$ 538,237

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013
(CONTINUED)

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

A. Description of the Reporting Entity (Continued)

The City has the ability to exercise influence over all management decisions of the Corporation and the sales tax collections have been pledged to service City debt.

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 business 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.

Excluded from the financial reporting entity of the City:

The City's financial statements include all City operations but exclude the following:

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 comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 accompanying 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 instead 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. An accompanying schedule is presented to reconcile and

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

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

B. Basis of Accounting/Measurement Focus (Continued)

explain the 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 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 that 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, 2013
(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 for 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 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, 2013
(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, 2013
(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, 2013
(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, 2013
(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, 2013
(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, 2013 were as follows:

City Manager presents the preliminary 2012/2013 budget to the City Council	August 13, 2012
City Council workshop on 2012/2013 budget	August 13, 2012
City Council proposes ad valorem tax rate	August 13, 2012
City Council discussion on 2012/2013 budget	August 27, 2012
First public hearing regarding the 2012/2013 proposed budget and ad valorem tax rate	August 27, 2012
Second public hearing regarding the 2012/2013 proposed budget and ad valorem tax rate	September 4, 2012
City Council adopts the budget for 2012/2013 and the ad valorem tax rate	September 10, 2012
Beginning of fiscal year for which ad valorem taxes are levied	October 1, 2012
Final assessment roll certified	July 25, 2012
Property tax bills rendered	October 1, 2012
Property tax collection dates	October 1, 2012-January 31, 2013
Property tax bills become delinquent	February 1, 2013

The budgets of general fund and proprietary fund 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, 2013
(CONTINUED)

NOTE 3 **DEPOSITS AND INVESTMENTS**

Deposits and investments at September 30, 2013, totaling \$8,575,212 are as follows:

Deposits – At September 30, 2013, the carrying amount of the City’s deposits are \$8,575,212. Of this amount, \$2,543,680 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 \$8,575,212 at September 30, 2013.

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, 2013 was \$.6630 per \$100 of assessed taxable property value. The tax rate was allocated \$.4721 for maintenance and operations and \$.1909 debt service per \$100 of assessed taxable property value. The taxable property value amounted to \$592,451,180. 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, 2013 was \$.13 per \$100 of assessed taxable property value. The tax rate is allocated 100% to debt service. The taxable property value amounted to \$592,451,180. 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, 2013

City of Decatur, Texas	\$ 68,359
Wise County Water Supply District	<u>13,362</u>
Total Ad Valorem Taxes Receivable	<u>\$ 81,721</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

NOTE 5 **CAPITAL ASSETS**

Governmental capital asset activity for the year ended September 30, 2013:

<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	6,069,780	85,451		6,155,231
Civic center	5,716,177	220,464		5,936,641
Fire equipment	5,412,331	19,329		5,431,660
General government	519,494	31,580		551,074
Library	1,822,060	30,986	(35,376)	1,817,670
Parks	2,615,549	20,850		2,636,399
Police	2,038,504	122,852		2,161,356
Street equipment	1,008,224	25,649		1,033,873
Street infrastructure	14,701,402	141,963		14,843,365
Other assets	2,427,833	27,110		2,454,943
Totals	44,206,461	726,234	(35,376)	44,897,319
Accumulated Depreciation	(10,620,410)	(1,334,083)	31,835	(11,922,658)
Totals	<u>33,586,051</u>	<u>(607,849)</u>	<u>(3,541)</u>	<u>32,974,661</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

NOTE 5 **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the governmental activities as follows:

General government	\$ 10,530
Airport	150,670
Main street	3,793
Fire protection	211,803
Police	130,217
Animal control	788
Streets	453,574
Library	70,468
Tax and court	20,103
Parks	101,004
Inspection services	7,165
Cemetary	2,968
Civic center	112,429
Planning	16,110
Economic Development	<u>42,461</u>
 Total	 <u>\$ 1,334,083</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

NOTE 5 **CAPITAL ASSETS (Continued)**

Business-type capital asset activity for the year ended September 30, 2013 was as follows:

<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	5,516,316	16,665	0	5,532,981
Trucks	277,932	0	0	277,932
Equipment	337,609	14,703	0	352,312
Office	22,406	0	0	22,406
New water and sewer lines	3,401,124	0	0	3,401,124
Water meters	406,852	9,225	0	416,077
Treated water distribution system	1,072,662	0	0	1,072,662
Elevated storage tower	828,723	0	0	828,723
Electrical generators	849,631	7,162	0	856,793
Raw water lines and pumps	3,784,772	0	0	3,784,772
Water treatment plant	6,679,978	63,771	0	6,743,749
Totals	23,766,038	111,526	0	23,877,564
Accumulated Depreciation	(7,943,482)	(613,513)		(8,556,995)
Totals	<u>\$ 15,822,556</u>	<u>\$ (501,987)</u>	<u>\$ 0</u>	<u>\$ 15,320,569</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Water, wastewater and garbage \$ 613,513

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 2012	Plan Year 2013
Employee deposit rate	7.0%	7.0%
Matching ration (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, 2013
(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)	\$ 763,378
Interest on Net Pension Obligation	0
Adjustment to the ARC	0
Annual Pension Cost (APC)	763,378
Contributions made	763,378
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
9/30/2010	\$696,944	\$696,944	100%	\$0
9/30/2011	\$727,568	\$727,568	100%	\$0
9/30/2012	\$763,378	\$763,378	100%	\$0

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

NOTE 6 **PENSION PLAN (Continued)**

Contributions (Continued)

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.0 years; closed period	26.1 years; closed period	25.1 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, 2012, 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)
12/31/2012	\$11,830,044	\$15,946,118	74.2%	\$4,116,074	\$5,323,007	77.3%

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 \$4,116,074 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 employees' 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 2012	Plan Year 2013
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 2013, 2012 and 2011 were \$8,537, \$8,769 and \$10,113, 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, 2013:

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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	\$ 9,285,000	\$ 0	\$ (4,290,000)	\$ 4,995,000	\$ 245,000
Refunding bonds payable	5,655,000	3,475,000	(705,000)	8,425,000	375,000
Capital lease obligation	969,898	0	(96,021)	873,877	100,386
	<u>15,909,898</u>	<u>3,475,000</u>	<u>(5,091,021)</u>	<u>14,293,877</u>	<u>720,386</u>
Deferred gain	0	103,200	(5,473)	97,727	0
Unamortized bond premium	286,921	267,658	(122,711)	431,868	0
	<u>286,921</u>	<u>370,858</u>	<u>(128,184)</u>	<u>529,595</u>	<u>0</u>
Total certificates of obligations, bonds and lease	<u>16,196,819</u>	<u>3,845,858</u>	<u>(5,219,205)</u>	<u>14,823,472</u>	<u>720,386</u>
Other liabilities;					
Accrued compensated absences	830,351	0	(693)	829,658	0
Net pension liability	4,354,224	0	(238,150)	4,116,074	0
	<u>5,184,575</u>	<u>0</u>	<u>(238,843)</u>	<u>4,945,732</u>	<u>0</u>
Total other liabilities	<u>5,184,575</u>	<u>0</u>	<u>(238,843)</u>	<u>4,945,732</u>	<u>0</u>
Governmental activities long-term liabilities	<u>21,381,394</u>	<u>3,845,858</u>	<u>(5,458,048)</u>	<u>19,769,204</u>	<u>720,386</u>
Business-type activities;					
Bonds and leases payable;					
Bonds payable	7,380,000	0	(460,000)	6,920,000	485,000
Lease payable	110,997	0	(73,202)	37,795	37,795
	<u>7,490,997</u>	<u>0</u>	<u>(533,202)</u>	<u>6,957,795</u>	<u>522,795</u>
Unamortized bond premium	257,138	0	(21,692)	235,446	0
Total bonds and lease payable	<u>7,748,135</u>	<u>0</u>	<u>(554,894)</u>	<u>7,193,241</u>	<u>522,795</u>
Accrued compensated absences	163,656	5,826	0	169,482	0
Meter Deposits	123,127	0	(8,051)	115,076	0
	<u>286,783</u>	<u>5,826</u>	<u>(8,051)</u>	<u>284,558</u>	<u>0</u>
Total other liabilities	<u>286,783</u>	<u>5,826</u>	<u>(8,051)</u>	<u>284,558</u>	<u>0</u>
Business-type activities; Long-term liabilities	<u>\$ 8,034,918</u>	<u>\$ 5,826</u>	<u>\$ (562,945)</u>	<u>\$ 7,477,799</u>	<u>\$ 522,795</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

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

Governmental activities:

Tax and Waterworks and Sewer System Surplus Revenue
Certificates of Obligation, Series 2004

The proceeds from the issuance of the Certificates of Obligation, Series 2004 (the Certificates) were used to make improvements and extensions to the City's water and wastewater facilities, including the purchase of land and right-of-way, park improvements, the purchase and renovation of a building for the police department and other administrative offices and a master drainage plan for the City and the professional services relating to 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 water works and sewer system. The Certificates maturing on or after March 1, 2015, are subject to optional redemption, in whole or in part, on March 1, 2014, or on any date thereafter at a price of par plus accrued interest. The stated interest rates on the Series 2004 Certificates vary from 4.35% to 5.00%.

These bonds were advance refunded with the issuance of the Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds, Series 2013 dated February 15, 2013.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 rights-of-way 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	
2014	\$ 245,000	\$ 105,101	\$ 100,201	\$ 450,302
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
2019-2023	1,635,000	328,243	294,437	2,257,680
2024-2028	2,025,000	138,758	94,163	2,257,921
Totals	\$ 4,995,000	\$ 941,406	\$ 836,305	\$ 6,772,711

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 amounts 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	
2014	\$ 375,000	\$ 78,363	\$ 74,612	\$ 527,975
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
2019-2020	1,625,000	42,875	14,437	1,682,312
Totals	<u>\$ 4,950,000</u>	<u>\$ 354,963</u>	<u>\$ 276,600</u>	<u>\$ 5,581,563</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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 amounts to \$472,832. The City received \$2,687 of accrued interest and a premium of \$267,658 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 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.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

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

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

Fiscal Year Ending September 30,	March 1,		September 1,	Annual Requirements
	Principal	Interest	Interest	
2014	\$	\$ 78,363	\$ 74,612	\$ 152,975
2015	315,000	74,612	64,038	453,650
2016	315,000	64,038	53,163	432,201
2017	330,000	53,163	41,912	425,075
2018	335,000	41,912	28,438	405,350
2019-2023	1,790,000	86,188	72,188	1,948,376
2024	390,000	14,438		404,438
Totals	<u>\$ 3,475,000</u>	<u>\$ 412,713</u>	<u>\$ 334,351</u>	<u>\$ 4,222,064</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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	
2014	\$ 49,635	\$ 19,640	\$ 50,751	\$ 18,525	\$ 138,551
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
2019-2021	194,549	13,278	129,646	8,905	346,378
Totals	<u>\$ 466,335</u>	<u>\$ 87,870</u>	<u>\$ 407,542</u>	<u>\$ 77,388</u>	<u>\$ 1,039,135</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	\$ 147,543
Fire protection	217,873
Streets	33,490
Police	16,745
Parks	16,745
Planning	8,373
Inspection services	<u>8,373</u>
Total	<u>\$ 449,142</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

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

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

<u>Long-term debt obligation</u>	<u>Total Debt</u>	<u>Current</u>
Certificates of obligation, Series 2008	\$ 4,995,000	\$ 245,000
Refunding bonds, Series 2011	4,950,000	375,000
Refunding bonds, Series 2013	3,475,000	0
Capital lease obligation	873,877	100,386
	<u>\$ 14,293,877</u>	<u>\$ 720,386</u>

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%.

<u>Fiscal Ending September 30,</u>	<u>January 10, Interest</u>	<u>July 10, Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2014	\$ 101,094	\$ 225,000	\$ 101,094	\$ 427,188
2015	96,031	235,000	96,031	427,062
2016	90,157	245,000	90,157	425,314
2017	84,031	260,000	84,031	428,062
2018	77,531	270,000	77,531	425,062
2019-2023	287,344	1,555,000	287,344	2,129,688
2024-2027	92,300	1,525,000	92,300	1,709,600
Totals	<u>\$ 828,488</u>	<u>\$ 4,315,000</u>	<u>\$ 828,488</u>	<u>\$ 5,971,976</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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>		<u>July 10,</u>		Annual Requirements
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2014	\$ 43,594	\$ 260,000	\$ 43,594	\$	347,188
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
2019-2022	<u>61,900</u>	<u>1,245,000</u>	<u>61,900</u>		<u>1,368,800</u>
Totals	<u>\$ 245,170</u>	<u>\$ 2,605,000</u>	<u>\$ 245,170</u>	<u>\$</u>	<u>3,095,340</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

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

Capital Lease Obligation – Wastewater Treatment Facilities Equipment

The City of Decatur, Texas has entered into a capital lease agreement in the original amount of \$347,552 to purchase equipment for the wastewater treatment facilities. The lease is payable in quarterly installments of \$19,203 beginning April 9, 2009. 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 equipment. The stated interest rate on the lease is 4.31%.

Fiscal Year Ending September 30,	Principal	Interest	Annual Requirements
2014	\$ 37,795	\$ 612	\$ 38,407
Thereafter	0	0	0
Totals	<u>\$ 37,795</u>	<u>\$ 612</u>	<u>\$ 38,407</u>

Interest expenses and other financing benefits and costs charged to the business-type activities in the statement of activities amounted to \$300,676.

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

<u>Long-term debt obligation</u>	<u>Total Debt</u>	<u>Current</u>
Unlimited tax bonds, Series 2007	\$ 4,315,000	\$ 225,000
Unlimited tax refunding bonds, Series 2011	2,605,000	260,000
Capital lease obligation	<u>37,795</u>	<u>37,795</u>
Total long-term debt	<u>\$ 6,957,795</u>	<u>\$ 522,795</u>

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(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, 2013 including interest payments are as follows:

Fiscal Year Ending September 30,	Governmental-Type Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 720,386	\$ 549,417	\$ 522,795	\$ 289,988	\$ 1,243,181	\$ 839,405
2015	1,379,949	506,204	500,000	274,050	1,879,949	780,254
2016	1,414,719	448,136	520,000	254,352	1,934,719	702,488
2017	1,474,707	387,997	535,000	233,850	2,009,707	621,847
2018	1,514,921	321,933	555,000	212,600	2,069,921	534,533
2019-2023	5,374,195	860,550	2,800,000	698,488	8,174,195	1,559,038
2024-2028	2,415,000	247,359	1,525,000	184,600	3,940,000	431,959
Totals	<u>\$ 14,293,877</u>	<u>\$ 3,321,596</u>	<u>\$ 6,957,795</u>	<u>\$ 2,147,928</u>	<u>\$ 21,251,672</u>	<u>\$ 5,469,524</u>

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 is legally segregated for a specific future use. At September 30, 2013 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, 2013
(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, 2013:

	Due From Other Funds	Due To Other Funds
<u>General Fund:</u>		
Proprietary Fund	\$ 38,672	\$ 0
Special Revenue Fund	27,101	0
Capital Project Fund	23,223	0
General Fund Totals	88,996	0
 <u>Proprietary Fund:</u>		
General Fund	0	38,672
Debt Service Fund	0	320,000
Special Revenue Fund	0	0
Proprietary Fund Totals	0	358,672
 <u>Special Revenue Fund:</u>		
General Fund	0	27,101
Proprietary Fund	0	0
Special Revenue Fund Totals	0	27,101
 <u>Debt Service Fund:</u>		
Proprietary Fund (reconciling item)	320,000	0
 <u>Capital Project Fund:</u>		
General Fund	0	23,223
Totals	\$ 408,996	\$ 408,996

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

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

The Proprietary Fund owes the General Fund \$38,672. This amount represents timing differences in the payment of invoices by the General Fund on behalf of the Proprietary Fund and the reimbursement by the Proprietary Fund to the General Fund to repay the debt. The Proprietary 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.

The other amounts owed by various funds to other funds are the result of timing differences. These amounts will be repaid during the subsequent year.

NOTE 14 **OPERATING TRANSFERS**

The following is a summary of operating transfers for the year ended September 30, 2013:

	<u>Transfer To</u>	<u>Transfer From</u>
Proprietary Fund	\$ 329,754	\$ 0
Debt Service Fund	298,979	0
Special Revenue Fund	<u>0</u>	<u>630,869</u>
Total Operating Transfers	628,733	630,869
Reconciling Item	<u>2,136</u>	<u>0</u>
Totals	<u>\$ 630,869</u>	<u>\$ 630,869</u>

The operating transfers are 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 transfers represent the EDC's commitment to fund two specific debt issues of the City. These commitments end when the specific debt issues are satisfied.

CITY OF DECATUR, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(CONTINUED)

NOTE 14 **OPERATING TRANSFERS (Continued)**

The reconciling item results from the Proprietary Fund using the accrual basis of accounting and the Debt Service Fund using the modified accrual basis of accounting. The difference is eliminated in the Statement of Net Assets when both funds report using the accrual basis of accounting.

NOTE 15 **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following is a summary of the excess of general fund expenditures over appropriations:

	General Fund
Expenditures	\$ (10,364,875)
Appropriations	10,172,496
Excess of Expenditures Over Appropriations	\$ (192,379)

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, 2013

	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	\$ 3,906,752	\$ 3,926,752	\$ 2,779,558 (1)	\$ 1,189,806	\$ 3,969,364	\$ 42,612
Sales taxes	2,450,000	2,535,280	2,696,217		2,696,217	160,937
Franchise, occupancy and other taxes	1,014,245	1,014,245	1,077,956		1,077,956	63,711
Interest on investments	1,500	1,500	3,114		3,114	1,614
Civic center	565,033	565,033	579,821		579,821	14,788
Building permits and inspection service fees	261,000	261,000	218,990		218,990	(42,010)
Court	651,000	651,000	707,153		707,153	56,153
Other	566,575	566,575	499,590		499,590	(66,985)
Total Revenues	9,416,105	9,521,385	8,562,399	1,189,806	9,752,205	230,820
Expenditures						
General government	1,090,800	1,090,800	1,062,845		1,062,845	27,955
Airport	165,706	165,706	147,540		147,540	18,166
Main street	136,541	136,541	132,463		132,463	4,078
Fire	1,156,769	1,156,769	1,196,439		1,196,439	(39,670)
Police	2,101,390	2,101,390	2,044,216		2,044,216	57,174
Animal control	72,331	72,331	71,507		71,507	824
Street	994,832	994,832	1,017,297		1,017,297	(22,465)
Library	539,940	539,940	478,108		478,108	61,832
Tax and corporation court	259,606	259,606	251,676		251,676	7,930
Parks	434,406	434,406	429,806		429,806	4,600
Planning services	372,754	372,754	344,806		344,806	27,948
Inspection services	288,579	288,579	293,084		293,084	(4,505)
Cemetery	68,434	68,434	63,545		63,545	4,889
Civic center	906,030	906,030	917,485		917,485	(11,455)
Economic Development (EDC)	0	0	928		928	(928)
Emergency management	24,736	24,736	11,898		11,898	12,838
Capital expenditures	324,745	430,025	619,426		619,426	(189,401)
Total Expenditures	8,937,599	9,042,879	9,083,069	0	9,083,069	(40,190)
Excess (Deficiency) of Revenues Over Expenditures	478,506	478,506	(520,670) (1)	1,189,806	669,136	190,630
Other Financing Sources (Uses)						
Operating Transfer In	651,111	651,111	208,662	0	208,662	(442,449)
Operating Transfer Out	(1,129,617)	(1,129,617)	(92,000)	(1,189,806)	(1,281,806)	(152,189)
Total Other Sources	(478,506)	(478,506)	116,662	(1,189,806)	(1,073,144)	(594,638)
Change in Fund Balance	0	0	(404,008)	0	(404,008)	(404,008)
Fund Balances, September 30, 2012	1,855,341	1,855,341	1,855,341	0	1,855,341	0
Fund Balances, September 30, 2013	\$ 1,855,341	\$ 1,855,341	\$ 1,451,333	\$ 1,189,806	\$ 1,451,333	\$ (404,008)

(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.

See accompanying notes to financial statements.

CITY OF DECATUR, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Texas Municipal Retirement System

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)
12/31/2010	\$8,943,136	\$13,230,304	67.6%	\$4,287,168	\$4,836,650	88.6%
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%

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, 2013, 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 March 14, 2014.

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 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

March 14, 2014