

**CITY OF GATESVILLE, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2021**

# CITY OF GATESVILLE, TEXAS

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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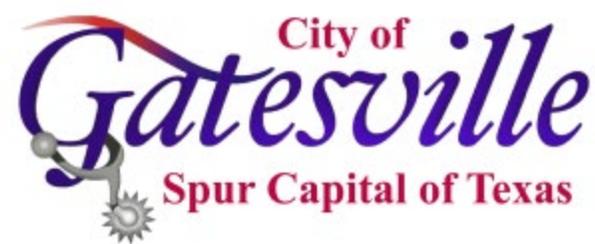
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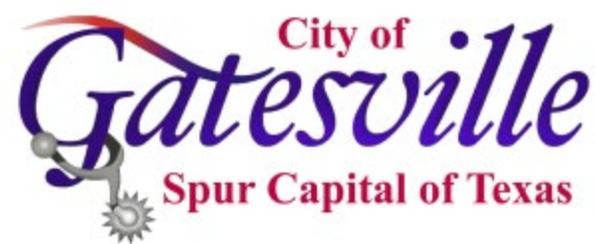
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## **FINANCIAL SECTION**





## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor & City Council  
City of Gatesville, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gatesville, Texas (the City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Gatesville, Texas, as of September 30, 2021, and the respective changes in financial position, and where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11, and the required supplementary information as listed in the table of contents on pages 74-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements on pages 84-87 are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

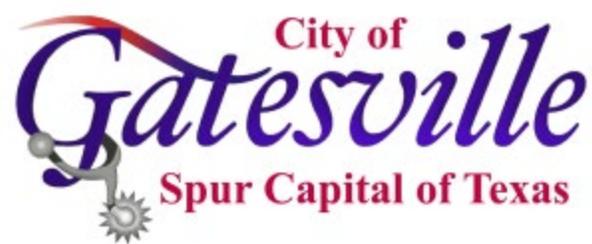
The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2022, on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Gatesville, Texas internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "LaFollett & Company PLLC". The signature is written in a cursive, flowing style.

LaFollett & Company PLLC  
Tom Bean, Texas  
May 24, 2022



# CITY OF GATESVILLE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SEPTEMBER 30, 2021

As management of the City of Gatesville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021.

#### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources as of September 30, 2021, by \$20,576,044 (net position). Of this amount \$14,806,302 is the net investment in capital assets, \$2,084,127 is restricted for debt services, \$233,941 is restricted for special purposes and \$65,659 is restricted for public safety, and \$3,386,015 is unrestricted.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$6,029,662. This is an increase of \$1,747,353 (or 41%) from the prior years net position of \$4,282,309.
- As of September 30, 2021, unassigned fund balance for the General Fund was \$2,121,506. This is an increase of \$281,893 (or 15%) from the prior years unassigned fund balance of \$1,839,613.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include water and sewer, fitness center and airport operations.

**CITY OF GATESVILLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2021**

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

The fund financial statements provide detailed information about the most significant fund - not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - utilize different account approaches.

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

Because the focus on governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheets and the governmental fund Statements of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

A Budgetary Comparison Schedule has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. The City reports a Grant Fund and a nonmajor Capital Projects Fund. Data for the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements elsewhere in this report.

**Proprietary Funds:** The City maintains one type of proprietary fund. Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the Proprietary Funds to account for water and sewer, fitness center, and airport operations.

The City charges customers for the services it provides, whether to outside customers or to other units with the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**Notes to the Financial Statements:**

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

**CITY OF GATESVILLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2021**

**Other Information:**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and to provide other postemployment benefits (OPEB) for its employees. The combining statements and schedules for nonmajor funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$20,576,044 as of September 30, 2021.

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

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
<b>Assets</b>						
Current and other assets	\$ 5,485,934	\$ 2,869,009	\$ 13,642,486	\$ 14,744,394	\$ 19,128,420	\$ 17,613,403
Capital assets	6,280,935	6,603,920	26,681,800	24,970,499	32,962,735	31,574,419
Total Assets	11,766,869	9,472,929	40,324,286	39,714,893	52,091,155	49,187,822
<b>Deferred Outflows of Resources</b>	367,498	429,970	850,716	721,080	1,218,214	1,151,050
<b>Liabilities</b>						
Other liabilities	2,451,828	752,824	2,350,923	440,797	4,802,751	1,193,621
Long-term liabilities	3,003,443	4,163,910	23,917,370	26,915,944	26,920,813	31,079,854
Total Liabilities	5,455,271	4,916,734	26,268,293	27,356,741	31,723,564	32,273,475
<b>Deferred Inflows of Resources</b>	649,434	703,856	360,327	334,361	1,009,761	1,038,217
<b>Net Position</b>						
Net investment in capital assets	4,383,633	4,533,612	10,422,669	7,946,748	14,806,302	12,480,360
Restricted	468,470	401,493	1,915,257	2,024,778	2,383,727	2,426,271
Unrestricted	1,177,559	(652,796)	2,208,456	2,773,345	3,386,015	2,120,549
Total Net Position	\$ 6,029,662	\$ 4,282,309	\$ 14,546,382	\$ 12,744,871	\$ 20,576,044	\$ 17,027,180

As of September 30, 2021, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business type activities.

**CITY OF GATESVILLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2021**

	Governmental Activities		Business Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
<b>Revenue</b>						
Program revenue						
Charges for services	\$ 477,734	\$ 312,971	\$ 8,490,393	\$ 9,257,032	\$ 8,968,127	\$ 9,570,003
Operating grants and contributions	726,275	316,385	-	-	726,275	316,385
Capital grants and contributions	-	-	-	-	-	-
General Revenue						
Property taxes	2,611,759	2,557,629	-	-	2,611,759	2,557,629
Sales taxes	2,590,953	2,283,134	-	-	2,590,953	2,283,134
Franchise taxes	354,065	378,414	-	-	354,065	378,414
Hotel/motel taxes	102,497	113,545	-	-	102,497	113,545
Other taxes	14,601	13,261	-	-	14,601	13,261
Investment income	5,846	10,952	13,508	91,192	19,354	102,144
Unrestricted contributions	-	27,038	-	-	-	27,038
Other revenues	326,036	213,380	284,313	-	610,349	213,380
Total revenue	7,209,766	6,226,709	8,788,214	9,348,224	15,997,980	15,574,933
<b>Expenses</b>						
General government	879,171	911,438	-	-	879,171	911,438
Public safety	2,754,671	3,030,185	-	-	2,754,671	3,030,185
Public works	1,366,801	1,308,427	-	-	1,366,801	1,308,427
Culture and recreation	946,966	949,208	-	-	946,966	949,208
Water and Sewer	-	-	7,114,048	8,529,271	7,114,048	8,529,271
Airport	-	-	83,590	57,564	83,590	57,564
Interest and fiscal charges	88,796	-	-	-	88,796	-
Total expenses	6,036,405	6,199,258	7,197,638	8,586,835	13,234,043	14,786,093
Change in Net Position Before Transfers	1,173,361	27,451	1,590,576	761,389	2,763,937	788,840
Transfers	290,857	199,177	(290,857)	(199,177)	-	-
Gain (loss) on disposal of asset	45,996	-	-	-	45,996	-
Total	336,853	199,177	(290,857)	(199,177)	45,996	-
Change in Net Position	1,510,214	226,628	1,299,719	562,212	2,809,933	788,840
Net position - Beginning, as Restated	4,519,448	4,055,681	13,246,663	12,182,659	17,766,111	16,238,340
Net position September 30	\$ 6,029,662	\$ 4,282,309	\$ 14,546,382	\$ 12,744,871	\$ 20,576,044	\$ 17,027,180

**Governmental Activities:**

Revenues from governmental activities when compared to the prior year had an increase of \$983,057. This increase is a result of an increase of \$409,890 in operating grants and contributions as well as a \$307,819 increase in sales tax revenue. Expenses in governmental activities decreased by \$162,853 from the prior year with the largest decrease of \$275,514 in public safety.

**Business-type Activities:**

Revenues from business-type activities decreased by \$560,010 from the prior year. Expenses decreased by \$1,389,197 from the prior year. The decrease in both revenue and expenses for business-type activities is due to the City adopting a new policy in the current fiscal year that no longer allowed for certain tracking of water revenues and expenses through manual journal entries.

**CITY OF GATESVILLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

**Government Funds:** The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,537,150. Approximately 71% (percent) of this total amount (\$2,523,949) constitutes unassigned fund balance.

**Proprietary Funds:** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There was no difference between the original budgeted expenditures and final amended budgeted expenditures amount as the budget was not amended during the fiscal year. General Fund actual revenue exceeded budgeted amounts by \$619,327 due in large part to sales tax actual revenue exceeding budgeted amounts by \$351,492. Expenditures did exceed appropriations at the legal level of control by \$89,176 in the General Fund. This excess is due primarily to unbudgeted capital outlay. The City has implemented procedures to ensure future compliance.

**CAPITAL ASSETS**

Governmental capital assets decreased by \$322,985 from fiscal year 2020 to 2021 due to increased depreciation. Business-type capital assets increased by \$1,711,301 due to buildings and improvements additions in fiscal year 2021. The table below presents the City's capital assets as of September 30, 2021, as well as the previous fiscal year-end.

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Land	\$ 636,543	\$ 636,543	\$ 300,339	\$ 300,339	\$ 936,882	\$ 936,882
Construction in progress	48,716	48,716	1,385,780	1,502,327	1,434,496	1,551,043
Buildings and improvements	3,268,188	3,268,188	58,711,541	55,404,252	61,979,729	58,672,440
Improvements other than buildings	4,654,647	4,613,134	-	-	4,654,647	4,613,134
Machinery and equipment	5,164,521	4,857,041	5,898,037	5,795,506	11,062,558	10,652,547
Less: accumulated depreciation	(7,491,680)	(6,819,702)	(39,613,897)	(38,031,925)	(47,105,577)	(44,851,627)
<b>Total Assets</b>	\$ 6,280,935	\$ 6,603,920	\$ 26,681,800	\$ 24,970,499	\$ 32,962,735	\$ 31,574,419

**CITY OF GATESVILLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City had total debt of \$29,215,734. Total debt of the City decreased by \$1,864,121 due to principal payments and a refunding done in the current year. Additional information on the City's long-term debt can be found below and within the notes section of this report.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
General obligation	\$ 485,000	\$ 640,000	\$ 14,720,000	\$ 15,418,149	\$ 15,205,000	\$ 16,058,149
Revenue bonds payable	-	-	9,050,000	9,525,000	9,050,000	9,525,000
Notes payable	338,993	447,696	765,079	819,915	1,104,072	1,267,611
Leases payable	1,073,309	982,612	79,421	129,619	1,152,730	1,112,231
<b>Total Debt Payable</b>	<b>1,897,302</b>	<b>2,070,308</b>	<b>24,614,500</b>	<b>25,892,683</b>	<b>26,511,802</b>	<b>27,962,991</b>
Compensated absences	129,915	129,915	65,139	65,139	195,054	195,054
Net pension liability	1,267,198	1,655,762	703,081	801,029	1,970,279	2,456,791
Total OPEB liability	346,404	307,926	192,195	157,093	538,599	465,019
<b>Total Long Term Liabilities</b>	<b>\$ 3,640,819</b>	<b>\$ 4,163,911</b>	<b>\$ 25,574,915</b>	<b>\$ 26,915,944</b>	<b>\$ 29,215,734</b>	<b>\$ 31,079,855</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Gatesville is strategically positioned within 30 miles of two Interstate Highways, sits at the intersection of a major U.S. Highway (U.S. 84) and SH36, and immediately west of the confluence of the Waco and Killeen-Temple Fort Hood Metropolitan Statistical Areas (MSA); both areas are expected to have continued growth over the next ten-to-twenty-year timeframe. As land prices become more expensive (especially for commercial/manufacturing development) and populations increase in the neighboring urban areas, Gatesville will be an attractive "place" for both residential and commercial development in the future due to an abundance of affordable and developable land. Additionally, the strategic importance of nearby North Fort Hood will continue to shape opportunities for Gatesville's economy in the near- to mid-term.

Annual sales tax allocations saw an increase of 13 percent in FY 2021 over FY2020. The City must be cautious about adopting an over-reliance on projected sales tax allocations during the budgeting process which could induce increased risk that revenue projections will not be met. Therefore, Gatesville's annual budget is "sensitive" to robust retail activity.

The City has implemented a more rigorous Code Enforcement program with a long-term goal to increase per-capita median housing values. When the City lost annexation authority in 2019 (H.B. 347) efforts shifted to finding ways to work with local builders on in-fill projects on vacant lots, and encouraging voluntary annexation in order to extend City utilities to developments in the extraterritorial jurisdiction (ETJ).

A total of 21,918 Army National Guard and U.S. Army Reserve Soldiers mobilized and demobilized at North Fort Hood in 2021 (a 10.3% increase over FY 2020) indicating the continuing strategic importance of North Fort Hood to the Army's mission. Given the current strategic global situation, the importance of North Fort Hood will not wane. Currently there are six Military Construction projects totaling \$35 million, planned or in-progress at North Fort Hood. While the Mobilization Force Generation mission at North Fort Hood does not create a sustained economic impact to Gatesville, retail sales are positively affected and contribute to our sales tax allocations, in addition to increased water sales and wastewater treatment charges for North Fort Hood.

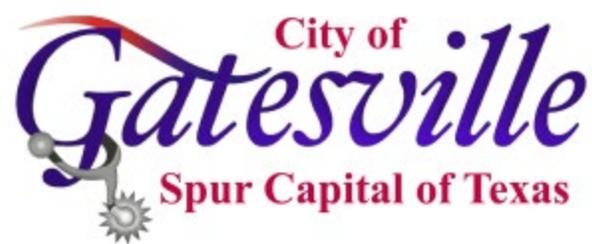
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The City monitored the impacts of COVID-19 during FY2021. As the economy began to recover and vaccines became available, the City began a return to normalcy. The City does not rely on travel/tourism as a major source of revenue. This helped the City with what could have been a major financial impact.

A Retail water rate study is currently in progress to ensure rates adequately fund current operating and maintenance costs, as well as infrastructure projects in the 5-year Capital Improvement Plan (CIP). Beginning in October 2020, the City undertook a major recapitalization project to replace all residential and commercial water meters in the City. 70 percent of the meters were over 20 years old, and an investment-grade audit indicated that baseline accuracy was 92.8 percent. This resulted in an estimated revenue loss of over \$110,000 per year. This project was completed in April 2021 and retail water revenues began to reflect the increased accuracy of the meters.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Michael Halsema, Director of Finance, 110 North 8th Street, Gatesville, Texas 76528.



**BASIC FINANCIAL  
STATEMENTS**

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF NET POSITION (PAGE 1 OF 2)

AS OF SEPTEMBER 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 3,184,217	\$ 12,485,022	\$ 15,669,239
Receivables, (net)	720,588	1,020,271	1,740,859
Inventories	44,731	137,193	181,924
Restricted assets:			
Cash and cash equivalents	1,536,398	-	1,536,398
<b>Total Current Assets</b>	5,485,934	13,642,486	19,128,420
Capital assets:			
Non depreciable:			
Land	636,543	300,339	936,882
Construction in progress	48,716	1,385,780	1,434,496
Depreciable (net of accumulated depreciation):			
Buildings and improvements	2,077,884	24,084,297	26,162,181
Improvements other than buildings	1,860,402	-	1,860,402
Machinery and equipment	1,657,390	911,384	2,568,774
<b>Total Capital Assets</b>	6,280,935	26,681,800	32,962,735
<b>Total Noncurrent Assets</b>	6,280,935	26,681,800	32,962,735
<b>Total Assets</b>	11,766,869	40,324,286	52,091,155
<b>Deferred Outflows of Resources</b>			
Deferred outflows - pension	326,045	180,899	506,944
Deferred outflows - OPEB	41,453	22,999	64,452
Deferred charges on refunding	-	646,818	646,818
<b>Total Deferred Outflows of Resources</b>	\$ 367,498	\$ 850,716	\$ 1,218,214

See Notes to Financial Statements.

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF NET POSITION (PAGE 2 OF 2)

AS OF SEPTEMBER 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 166,206	\$ 301,390	\$ 467,596
Accrued liabilities and other payables	110,116	-	110,116
Unearned revenue	1,536,398	-	1,536,398
Customer deposits	-	290,742	290,742
Accrued interest payable	1,732	101,246	102,978
Due within one year:			
Bonds and notes payable	507,461	1,592,406	2,099,867
Accrued compensated absences	129,915	65,139	195,054
<b>Total Current Liabilities</b>	<b>2,451,828</b>	<b>2,350,923</b>	<b>4,802,751</b>
Noncurrent liabilities:			
Due in more than one year:			
Bonds and notes payable	1,389,841	23,022,094	24,411,935
Net pension liability	1,267,198	703,081	1,970,279
Total OPEB liability	346,404	192,195	538,599
<b>Total Noncurrent Liabilities</b>	<b>3,003,443</b>	<b>23,917,370</b>	<b>26,920,813</b>
<b>Total Liabilities</b>	<b>5,455,271</b>	<b>26,268,293</b>	<b>31,723,564</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - pension	582,313	323,085	905,398
Deferred inflows - OPEB	67,121	37,242	104,363
<b>Total Deferred Inflows of Resources</b>	<b>649,434</b>	<b>360,327</b>	<b>1,009,761</b>
<b>Net Position</b>			
Net investment in capital assets	4,383,633	10,422,669	14,806,302
Restricted for:			
Debt service	168,870	1,915,257	2,084,127
Special purposes	233,941	-	233,941
Public safety	65,659	-	65,659
Unrestricted	1,177,559	2,208,456	3,386,015
<b>Total Net Position</b>	<b>\$ 6,029,662</b>	<b>\$ 14,546,382</b>	<b>\$ 20,576,044</b>

See Notes to Financial Statements.

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2021

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
Public safety	\$ 2,754,671	\$ 280,486	\$ 73,362	\$ -
Public works	1,366,801	30,743	-	-
General government	879,171	52,863	599,003	-
Culture and recreation	946,966	113,642	53,910	-
Interest and fiscal charges	88,796	-	-	-
<b>Total Governmental Activities</b>	<b>6,036,405</b>	<b>477,734</b>	<b>726,275</b>	<b>-</b>
Business-Type Activities:				
Water and sewer	7,114,048	8,463,674	-	-
Municipal airport	83,590	26,719	-	-
<b>Total Business-Type Activities</b>	<b>7,197,638</b>	<b>8,490,393</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 13,234,043</b>	<b>\$ 8,968,127</b>	<b>\$ 726,275</b>	<b>\$ -</b>

General Revenues:

- Property taxes
- Sales and use taxes
- Franchise and local taxes
- Alcoholic beverage taxes
- Hotel/motel taxes
- Investment income
- Other revenues
- Gain on sale of assets

Transfers in (out)

**Total General Revenues and Transfers**

**Change in Net Position**

Net Position - Beginning, as Restated

Net Position - Ending

See Notes to Financial Statements.

**Net (Expense) Revenue and  
Changes in Net Position  
Primary Government**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (2,400,823)		\$ (2,400,823)
(1,336,058)		(1,336,058)
(227,305)		(227,305)
(779,414)		(779,414)
(88,796)		(88,796)
<u>(4,832,396)</u>		<u>(4,832,396)</u>
-	\$ 1,349,626	1,349,626
-	(56,871)	(56,871)
-	1,292,755	1,292,755
<u>(4,832,396)</u>	<u>1,292,755</u>	<u>(3,539,641)</u>
2,611,759	-	2,611,759
2,590,953	-	2,590,953
354,065	-	354,065
14,601	-	14,601
102,497	-	102,497
5,846	13,508	19,354
326,036	284,313	610,349
45,996	-	45,996
290,857	(290,857)	-
<u>6,342,610</u>	<u>6,964</u>	<u>6,349,574</u>
1,510,214	1,299,719	2,809,933
4,519,448	13,246,663	17,766,111
<u>\$ 6,029,662</u>	<u>\$ 14,546,382</u>	<u>\$ 20,576,044</u>

# CITY OF GATESVILLE, TEXAS

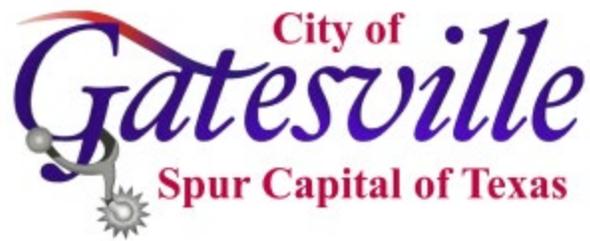
## BALANCE SHEET - GOVERNMENTAL FUNDS

AS OF SEPTEMBER 30, 2021

	General Fund	Grant Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 1,992,210	\$ 402,443
Receivables, net:		
Property taxes	153,058	-
Sales taxes	433,802	-
Other	133,728	-
Due from other funds	-	-
Inventories	44,731	-
Restricted assets:		
Cash and cash equivalents	-	1,536,398
<b>Total Assets</b>	<u>2,757,529</u>	<u>1,938,841</u>
<b>Liabilities</b>		
Accounts payable	164,298	-
Accrued liabilities and other payables	110,116	-
Deferred revenue - federal grants	-	1,536,398
Due to other funds	11,945	-
<b>Total Liabilities</b>	<u>286,359</u>	<u>1,536,398</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - property taxes	98,348	-
Unavailable revenue - fines	37,715	-
<b>Total Deferred Inflows of Resources</b>	<u>136,063</u>	<u>-</u>
<b>Fund Balances</b>		
Nonspendable	44,731	-
Restricted for:		
Debt service	168,870	-
Capital projects	-	-
Special purposes	-	-
Public safety	-	-
Unassigned	2,121,506	402,443
<b>Total Fund Balances</b>	<u>2,335,107</u>	<u>402,443</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 2,757,529</u>	<u>\$ 1,938,841</u>

See Notes to Financial Statements.

Nonmajor Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 500,000	\$ 289,564	\$ 3,184,217
-	-	153,058
-	-	433,802
-	-	133,728
-	11,945	11,945
-	-	44,731
-	-	1,536,398
<u>500,000</u>	<u>301,509</u>	<u>5,497,879</u>
-	1,909	166,207
-	-	110,116
-	-	1,536,398
-	-	11,945
<u>-</u>	<u>1,909</u>	<u>1,824,666</u>
-	-	98,348
-	-	37,715
<u>-</u>	<u>-</u>	<u>136,063</u>
-	-	44,731
-	-	168,870
500,000	-	500,000
-	233,941	233,941
-	65,659	65,659
-	-	2,523,949
<u>500,000</u>	<u>299,600</u>	<u>3,537,150</u>
<u>\$ 500,000</u>	<u>\$ 301,509</u>	<u>\$ 5,497,879</u>



**CITY OF GATESVILLE, TEXAS**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2021**

<b>Fund Balances - Total Governmental Funds</b>	\$ 3,537,150
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.	6,280,935
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds	
Property taxes receivables	98,348
Fines receivable	37,715
Deferred outflows (inflows) of resources represent a consumption (source) of net position that applies to a future period(s) and are not recognized as an outflow (inflow) of resources (expense/expenditure) until then.	
Pension amounts	(256,268)
OPEB amounts	(25,668)
Some liabilities, including interest, bonds payable, and net pension and total OPEB liabilities, are not reported as liabilities in the governmental funds.	
Accrued interest	(1,731)
Accrued compensated absences	(129,915)
Non-current debt due in one year	(507,461)
Non-current debt due in more than one year	(1,389,841)
Net pension and total OPEB liability	(1,613,602)
<b>Net Position of Governmental Activities - Statement of Net Position</b>	<b>\$ 6,029,662</b>

See Notes to Financial Statements.

**CITY OF GATESVILLE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	General Fund	Grant Fund
<b>Revenues</b>		
Taxes:		
Property	\$ 2,555,809	\$ -
Sales	2,590,953	-
Franchise	354,065	-
Hotel/motel	-	-
Liquor	14,601	-
Charges for services	188,104	-
Grants	-	678,237
Court fines	194,310	-
Donations	-	-
Intergovernmental	245,811	-
Miscellaneous	80,225	-
Licenses, permits and fees	30,743	-
Interest revenue	5,143	-
<b>Total Revenues</b>	6,259,764	678,237
<b>Expenditures</b>		
Current operating:		
Public safety	2,709,578	-
General government	704,834	199,140
Culture and recreation	806,142	-
Public works	1,148,431	-
Debt Service:		
Principal retirement	503,742	-
Interest and fiscal charges	87,064	-
Capital outlay	208,946	112,627
<b>Total Expenditures</b>	6,168,737	311,767
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	91,027	366,470
<b>Other Financing Sources (Uses)</b>		
Transfers in	419,261	-
Transfers out	(500,000)	-
Leases issued	159,440	-
Proceeds from the sale of capital assets	73,560	-
<b>Total Other Financing Sources (Uses)</b>	152,261	-
<b>Net Change in Fund Balances</b>	243,288	366,470
<b>Fund Balances - Beginning, as Restated</b>	2,091,819	35,973
<b>Fund Balances - Ending</b>	\$ 2,335,107	\$ 402,443

See Notes to Financial Statements.

Nonmajor Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,555,809
-	-	2,590,953
-	-	354,065
-	102,497	102,497
-	-	14,601
-	13,500	201,604
-	-	678,237
-	13,362	207,672
-	48,038	48,038
-	-	245,811
-	-	80,225
-	-	30,743
-	703	5,846
-	178,100	7,116,101
-	22,249	2,731,827
-	1,555	905,529
-	42,320	848,462
-	-	1,148,431
-	-	503,742
-	-	87,064
-	8,006	329,579
-	74,130	6,554,634
-	103,970	561,467
500,000	-	919,261
-	(128,404)	(628,404)
-	-	159,440
-	-	73,560
500,000	(128,404)	523,857
500,000	(24,434)	1,085,324
-	324,034	2,451,826
\$ 500,000	\$ 299,600	\$ 3,537,150

# CITY OF GATESVILLE, TEXAS

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2021

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,085,324

Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:

Governmental funds report capital outlays as expenditures. However, in the SOA the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	329,579
Depreciation expense	(680,367)

Revenues in the SOA that do not provide current financial resources are not reported as revenues in the governmental funds.

93,665

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, the amounts are deferred and amortized in the SOA. The following amounts are the net effect of these differences in the treatment of long-term debt and related items:

Net changes in certificates, bonds & notes	341,709
--	---------

Some expenses reported in the SOA do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued interest	(1,732)
Pension and OPEB expense	342,036

**Net Position of Governmental Activities - Statement of Activities**

\$ 1,510,214

See Notes to Financial Statements.

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes:				
Property	\$ 2,488,021	\$ 2,488,021	\$ 2,555,809	\$ 67,788
Sales	2,239,461	2,239,461	2,590,953	351,492
Franchise	300,000	300,000	354,065	54,065
Liquor	15,000	15,000	14,601	(399)
Charges for services	138,500	138,500	188,104	49,604
Court fines	148,000	148,000	194,310	46,310
Intergovernmental	247,225	247,225	245,811	(1,414)
Miscellaneous	20,000	20,000	80,225	60,225
Licenses, permits and fees	36,200	36,200	30,743	(5,457)
Interest revenue	8,000	8,000	5,143	(2,857)
<b>Total Revenues</b>	5,640,407	5,640,407	6,259,764	619,357
<b>Expenditures</b>				
Current operating:				
Public safety	2,577,152	2,577,152	2,709,578	(132,426)
General government	681,101	681,101	704,834	(23,733)
Culture and recreation	974,774	974,774	806,142	168,632
Public works	1,182,864	1,182,864	1,148,431	34,433
Debt Service:				
Principal retirement	525,846	525,846	503,742	22,104
Interest and fiscal charges	49,564	49,564	87,064	(37,500)
Capital outlay	88,260	88,260	208,946	(120,686)
<b>Total Expenditures</b>	6,079,561	6,079,561	6,168,737	(89,176)
<b>Excess of Revenues Over (Under) Expenditures</b>	(439,154)	(439,154)	91,027	530,181
<b>Other Financing Sources (Uses)</b>				
Transfers in	407,154	407,154	419,261	12,107
Transfers out	-	-	(500,000)	(500,000)
Leases issued	-	-	159,440	159,440
Proceeds from the sale of assets	62,000	62,000	73,560	11,560
<b>Total Other Financing Sources (Uses)</b>	469,154	469,154	152,261	(316,893)
<b>Net Change in Fund Balances</b>	30,000	30,000	243,288	\$ 213,288
<b>Fund Balances - Beginning, as Restated</b>	2,091,819	2,091,819	2,091,819	
<b>Fund Balances, Ending</b>	\$ 2,121,819	\$ 2,121,819	\$ 2,335,107	

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF NET POSITION (PAGE 1 OF 2)

### PROPRIETARY FUNDS

AS OF SEPTEMBER 30, 2021

	Water and Sewer Fund	Nonmajor Municipal Airport	Total Enterprise Funds
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 12,087,215	\$ 397,807	\$ 12,485,022
Receivables, net	1,020,271	-	1,020,271
Inventories	137,193	-	137,193
<b>Total Current Assets</b>	13,244,679	397,807	13,642,486
<b>Capital Assets</b>			
Land	284,339	16,000	300,339
Construction in progress	1,385,780	-	1,385,780
Buildings and improvements	58,228,222	483,319	58,711,541
Machinery and equipment	5,898,037	-	5,898,037
Accumulated depreciation	(39,414,213)	(199,684)	(39,613,897)
<b>Total Capital Assets (net)</b>	26,382,165	299,635	26,681,800
<b>Total Assets</b>	39,626,844	697,442	40,324,286
<b>Deferred Outflows of Resources</b>			
Deferred charges on bond refunding	646,818	-	646,818
Deferred outflows - pension	180,899	-	180,899
Deferred outflows - OPEB	22,999	-	22,999
<b>Total Deferred Outflows of Resources</b>	\$ 850,716	\$ -	\$ 850,716

See Notes to Financial Statements.

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF NET POSITION (PAGE 2 OF 2)

### PROPRIETARY FUNDS

AS OF SEPTEMBER 30, 2021

	Water and Sewer Fund	Nonmajor Municipal Airport	Total Enterprise Funds
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and other current liabilities	\$ 275,502	\$ 25,888	\$ 301,390
Accrued interest payable	101,246	-	101,246
Utility customer deposits	290,742	-	290,742
Notes and capital leases payable - current	97,406	-	97,406
Bonds payable - current	1,495,000	-	1,495,000
Compensated absences payable - current	65,139	-	65,139
<b>Total Current Liabilities</b>	<b>2,325,035</b>	<b>25,888</b>	<b>2,350,923</b>
<b>Noncurrent Liabilities</b>			
Notes and capital leases payable	747,094	-	747,094
Bonds payable	22,275,000	-	22,275,000
Total OPEB liability	192,195	-	192,195
Net pension liability	703,081	-	703,081
<b>Total Noncurrent Liabilities</b>	<b>23,917,370</b>	<b>-</b>	<b>23,917,370</b>
<b>Total Liabilities</b>	<b>26,242,405</b>	<b>25,888</b>	<b>26,268,293</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - pension	323,085	-	323,085
Deferred inflows - OPEB	37,242	-	37,242
<b>Total Deferred Inflows of Resources</b>	<b>360,327</b>	<b>-</b>	<b>360,327</b>
<b>Net Position</b>			
Net Investment in Capital Assets	10,123,034	299,635	10,422,669
Restricted for:			
Debt service	1,915,257	-	1,915,257
Unrestricted	1,836,537	371,919	2,208,456
<b>Total Net Position</b>	<b>\$ 13,874,828</b>	<b>\$ 671,554</b>	<b>\$ 14,546,382</b>

See Notes to Financial Statements.

**CITY OF GATESVILLE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Water and Sewer Fund	Nonmajor Municipal Airport	Total Enterprise Funds
<b>Operating Revenues</b>			
Charges for sales and services:			
Water sales	\$ 7,990,233	\$ -	\$ 7,990,233
Municipal airport	-	26,719	26,719
Other income	473,441	-	473,441
<b>Total Operating Revenues</b>	<u>8,463,674</u>	<u>26,719</u>	<u>8,490,393</u>
<b>Operating Expenses</b>			
Salaries and wages	1,974,617	-	1,974,617
Other purchased services	1,711,495	5,752	1,717,247
Supplies and maintenance	1,034,096	53,808	1,087,904
Miscellaneous	6,695	-	6,695
Depreciation	1,557,942	24,030	1,581,972
<b>Total Operating Expenses</b>	<u>6,284,845</u>	<u>83,590</u>	<u>6,368,435</u>
<b>Operating Income (Loss)</b>	2,178,829	(56,871)	2,121,958
<b>Non-Operating Revenues (Expenses)</b>			
Interest revenue	13,162	346	13,508
Proceeds from insurance claim	-	284,313	284,313
Interest and fiscal charges	(829,203)	-	(829,203)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(816,041)</u>	<u>284,659</u>	<u>(531,382)</u>
<b>Income (Loss) Before Transfers</b>	1,362,788	227,788	1,590,576
Transfers in	1,657,958	23,881	1,681,839
Transfers out	(1,972,696)	-	(1,972,696)
<b>Changes in Net Position</b>	1,048,050	251,669	1,299,719
<b>Net Position - Beginning, as Restated</b>	12,826,778	419,885	13,246,663
<b>Net Position - Ending</b>	<u>\$ 13,874,828</u>	<u>\$ 671,554</u>	<u>\$ 14,546,382</u>

See Notes to Financial Statements.

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Water and Sewer Fund	Nonmajor Municipal Airport Fund	Totals
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 8,266,620	\$ 26,719	\$ 8,293,339
Cash payments to employees for services	(1,935,343)	-	(1,935,343)
Cash payments (to) from other funds for services provided	123,739	-	123,739
Cash payments to other suppliers for goods and services	(2,784,331)	(33,671)	(2,818,002)
<b>Net Cash Provided (Used) by Operating Activities</b>	3,670,685	(6,952)	3,663,733
<b>Cash Flows from Non-capital Financing Activities</b>			
Transfers in from other funds	1,657,958	23,881	1,681,839
Transfers out to other funds	(1,972,696)	-	(1,972,696)
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	(314,738)	23,881	(290,857)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Debt issuance costs paid	(190,689)	-	(190,689)
Proceeds from the issuance of bonds	6,150,000	-	6,150,000
Proceeds from claim on insurance	-	284,313	284,313
Principal paid on capital debt	(7,256,471)	-	(7,256,471)
Interest paid on capital debt	(728,185)	-	(728,185)
Acquisition and construction of capital assets	(3,293,273)	-	(3,293,273)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	(5,318,618)	284,313	(5,034,305)
<b>Cash Flows from Investing Activities</b>			
Interest and dividends on investments	13,162	346	13,508
<b>Net Cash Provided (Used) by Investing Activities</b>	13,162	346	13,508
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,949,509)	301,588	(1,647,921)
Cash and Cash Equivalents at Beginning of Year	14,036,724	96,219	14,132,943
Cash and Cash Equivalents at End of Year	\$ 12,087,215	\$ 397,807	\$ 12,485,022
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ 2,178,829	\$ (56,871)	\$ 2,121,958
Adjustment to reconcile operating income to net cash			
Provided (used) by operating activities:			
Depreciation	1,557,942	24,030	1,581,972
Change in Assets and Liabilities:			
Decrease (increase) in receivables	(285,081)	-	(285,081)
Decrease (increase) in inventories	(137,193)	-	(137,193)
Decrease (increase) in pension and OPEB related deferred outflows of resources	(2,394)	-	(2,394)
Decrease (increase) in due from other funds	123,739	-	123,739
Increase (decrease) in accounts payable	265,604	25,889	291,493
Increase (decrease) in utility customer deposits	6,119	-	6,119
Increase (decrease) in total OPEB obligation	35,102	-	35,102
Increase (decrease) in net pension obligation	(97,948)	-	(97,948)
Increase (decrease) in pension and OPEB related deferred inflows of resources	25,966	-	25,966
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ 3,670,685	\$ (6,952)	\$ 3,663,733

**CITY OF GATESVILLE, TEXAS**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUND**  
**AS OF SEPTEMBER 30, 2021**

		Fireman's Fund
<b>Assets</b>		
Cash and cash equivalents	\$	-
<b>Total Assets</b>		<u>-</u>
 <b>Liabilities</b>		
Accounts payable		-
Due to beneficiaries		108
<b>Total Liabilities</b>		<u>108</u>
 <b>Net Position</b>		
Restricted for:		
Other		-
Unassigned		(108)
<b>Total Net Position</b>	<b>\$</b>	<u><u>(108)</u></u>

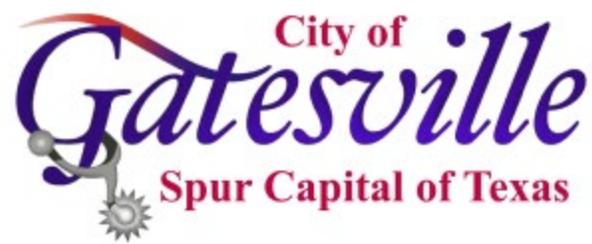
See Notes to Financial Statements.

# CITY OF GATESVILLE, TEXAS

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUND FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Fireman's Fund
<b>Additions</b>	
Investment earnings	\$ -
Miscellaneous	341
<b>Total Additions</b>	<u>341</u>
<b>Deductions</b>	
Retirement payments	917
<b>Total Deductions</b>	<u>917</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(576)
<b>Net increase (decrease) in fiduciary net position</b>	(576)
<b>Net Position - Beginning</b>	<u>468</u>
<b>Net Position- Ending</b>	<u><u>\$ (108)</u></u>

See Notes to Financial Statements.



**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

***I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**A. General Statement**

The City of Gatesville, Texas, (City), a municipal corporation in Coryell County, Texas, was incorporated under the general laws of the State of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities and airport operations.

The financial statements of the City of Gatesville have been prepared to conform with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the government's accounting and reporting policies are described below.

**B. Financial Reporting Entity**

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity, was made by applying the criteria set forth in GAAP. The City Council, which is elected at large, consists of a mayor and six council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City of Gatesville. The criteria for including organizations as component units within the City's reporting entity include whether 1) the organization is legally separate (can sue and be sued in their own name, 2) the City holds the corporate powers of the organization, 3) the City appoints a voting majority of the organization's board, 4) the City is able to impose its will on the organization, 5) the organization has the potential to impose a financial benefit/burden on the City, and 6) there is fiscal dependency by the organization on the City. Based on all factors, there are no component units that qualify for inclusion in the City's reporting entity.

**C. Upcoming and Newly Implemented Accounting Pronouncements**

The GASB has issued the following statements:

GASB Statement No. 87, Leases, will increase the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The City is currently evaluating the impact of this Statement.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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GASB Statement No. 91, Conduit Debt Obligations, will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. The adoption of Statement No. 91 has no impact on the City's financial statements.

GASB Statement No. 92, Omnibus 2020, establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for various reporting periods beginning after June 15, 2021. The City is currently evaluating the impact of this Statement.

GASB Statement No. 93, Replacement of Interbank Offered Rates, provides exceptions to the existing provisions for hedge accounting termination and lease modifications to ease the accounting requirements related to the transition away from interbank offered rates. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some requirements of this Statement will take effect for reporting periods ending after December 31, 2021 while other requirements are effective beginning with fiscal years that end June 30, 2022. The adoption of Statement No. 93 has no impact on the City's financial statements.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, improves financial reporting by addressing these relationships and availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The City is currently evaluating the impact of this Statement.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA), provides guidance on the accounting and financial reporting of contractual arrangements. It defines SBITA; establishes that a SBITA results in a right-to-use subscription asset; provides capitalization criteria; and requires note disclosures. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The City is currently evaluating the impact of this Statement.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which potential component unit does not have a governing board and the primary government performs the duties that governing board typically would perform; mitigate costs associated with the reporting of certain defined contribution pension, OPEB and benefit plans other than pension or OPEB plans; and enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

through those plans. The requirements of this Statement related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. The City is currently evaluating the impact of this Statement for the requirements effective in fiscal year 2022.

GASB Statement No. 98, The Annual Comprehensive Financial Report, establishes the term annual comprehensive financial report and its acronym ACFR. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. The City has implemented this Statement.

**D. Basis of Presentation – Government-Wide Financial Statements**

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government’s water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes or other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**E. Basis of Presentation – Fund Financial Statements**

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

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City reports the following major governmental funds:

**General Fund**

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

**Grant Fund**

The Grant Fund is used to account for all grant income received by the City and track the expenditures of grant funds during the course of the year.

In addition, the City reports the following non-major governmental funds:

**Capital Projects Fund**

The Capital Projects Fund is used to account for the proceeds from the issuance of general obligation bonds to be used for the acquisition or construction of parks, buildings, and other facilities.

**Nonmajor Special Revenue Funds**

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are restricted to expenditures for specified purposes.

These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These nonmajor special revenue funds include: Municipal Court Security Fund, the Donations Fund, the Public Safety Fund, the Motel Occupancy Fund, and the Cemetery Maintenance Fund.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are a determination of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City reports the following proprietary funds:

**Water and Sewer Fund**

The Water and Sewer Fund provides water and wastewater services to the residents and businesses of Gatesville. The Water and Sewer Fund accounts for the distribution of treated water and the collection and treatment of sewage, and solid waste collection activities. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

**Airport Fund**

The Airport Fund is used to account for hanger rentals and nominal expenses associated with operating the facilities. This fund is considered nonmajor for reporting purposes.

Additionally, the City reports the following fund types:

**Fiduciary Fund**

The Fiduciary Fund type accounts for assets held by the City as an agent on behalf of others. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. The City has one Agency Fund: Fireman's Fund.

**F. Measurement Focus and Basis of Accounting**

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

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

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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

Property taxes, franchise taxes, sales taxes, municipal court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes collected by Coryell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue.

Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered measurable and available only when cash is received by the government.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**G. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund. The Capital Projects Fund is appropriated on a project-length basis.

Other Special Revenue Funds do not have appropriated budgets since other means control the use of these resources (i.e. grant awards and city council resolutions) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

***Excess of Expenditures Over Appropriations***

For the year ended September 30, 2021, the General Fund exceeded appropriations at the legal level of control in the amount of \$89,176, primarily due to unbudgeted capital outlay. Management has implemented procedures to ensure future compliance.

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

***1. Cash and cash equivalents***

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month-end. An individual fund's equity in the pooled cash accounts is available upon demand and are considered to be "cash equivalents" when preparing these financial statements.

In addition, any marketable securities not included in the common pooled accounts that are purchased with maturity of ninety days or less are also considered "cash equivalents." Negative balances incurred in pooled cash at year-end are treated as interfund receivables of the General Fund and interfund payables of the deficit fund.

***2. Investments***

The City is authorized to make investments in accordance with "The Public Funds Investment Act of 1987". The City is also authorized by the Interlocal Cooperation Act, Articles 4413(32c) and 4413(43c), Vernon's Texas Civil Statutes, as amended, to invest in shares of a public funds investment pool. The City's investment policy authorizes certain investments that may be purchased by the City.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in TexPool and TexSTAR. In accordance with state law, TexPool and TexSTAR operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool and TexSTAR, qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

TexPool is subject to regulatory oversight by the State Comptroller, although it is not registered with the SEC while TexSTAR is subject to regulatory oversight by JP Morgan Chase, Inc. and First Southwest Asset Management, Inc. Texas Class is overseen by a Board of Trustees consisting of individuals from active participating Government Entities in the pool that are elected by the participants, and the fair value is the same as the value of the pool shares.

**3. *Receivables and payables***

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or non-routine transfers of equity between funds - for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds - are accounted for as transfers in the government-wide statements of activities and as capital contributions in the proprietary fund operating statement.

All service and property tax receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 60 days comprise the service accounts receivable allowance for uncollectible. The property tax receivable allowance is based on historical collection rates at the end of the fiscal year.

**4. *Inventories and prepaid items***

Inventories are valued at cost using the first-in first-out (FIFO) method. Inventories consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**5. Capital assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their acquisition value at the date of donation. Capital assets received in a service concession arrangement are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land and construction are not depreciated. The other property, plant, equipment, and infrastructure of the City, as well as the component unit, are depreciated using the straight-line method over the following useful lives:

Building and building improvements	10 - 50 years
Improvements other than buildings	10 - 50 years
Machinery and equipment	5 - 15 years
Infrastructure	40 years

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**6. *Estimates***

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

**7. *Pension and Other Post-Employment Benefits (OPEB)***

The City participates in a retirement plan through Texas Municipal Retirement System (TMRS) covering all employees and additionally participates in an OPEB plan through TMRS and a single-employer defined benefit healthcare plan.

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

Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Information regarding the City's Net Pension Liability and Total OPEB Liability is obtained from the TMRS through reports prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68. Accounting and Financial Reporting for Pensions and GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

**8. *Deferred outflows/inflows of resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

The City reports a deferred charge on refunding reported in the Government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City also reports deferred pension and OPEB expenses that arise from payments made to the pension trustee applicable to subsequent periods and changes in assumptions. These amounts are deferred and recognized as an outflow of resources in the period that the amounts become available.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports pension and OPEB amounts that arise from differences in expected versus actual experience and projected versus actual earnings. Also, the City has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting under this category. According to the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and municipal court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**9. *Net position and fund balance flow assumptions***

When the City incurs an expense for which it may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

**10. *Fund balance policies***

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

*Non-spendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

*Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* - amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

*Assigned fund balance* – amounts that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council by resolution authorized the finance division to assign fund balance.

**CITY OF GATESVILLE, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

*Unassigned fund balance* – the residual classification for the City’s General Fund that includes amounts not contained in the other classifications. In other words, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**I. Revenues and Expenditures/Expenses**

**1. Program revenues**

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property taxes**

Ad valorem (property) taxes are levied based on the January 1 property values as assessed by the Coryell County Appraisal District.

Property taxes are recognized as revenue when they become available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. Current taxes are levied on October 1, and become delinquent if unpaid on February 1.

**3. Compensated absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave, which is not vested. The liabilities for these amounts are accrued as they are incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, because of employee resignations and retirements. Typically, the General Fund has been used in prior years to liquidate such amounts in governmental funds.

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**4. *Proprietary funds operating and non-operating revenues and expenses***

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

The principal operating revenues of the Water and Sewer Fund is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**J. Long-Term Obligations**

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

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

**II. DETAILED NOTES ON ALL FUNDS**

**A. Cash Deposits with Financial Institutions**

**Deposits** - Custodial credit risk for deposits is the risk in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities having a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized with securities held by the City or its agent in the City's name or the pledging financial institution's trust department or agent in the City's name at September 30, 2021.

At September 30, 2021, the City had carrying amounts of demand deposits of \$17,203,496, while the bank balance was \$17,256,813. Included in the balance is \$8,865,600 held in escrow by a third party. Of the remaining bank balances, \$250,000 was covered by federal depository

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insurance. Collateral for the bank balances over the federal depository insurance amount consisted of securities with a fair market value of \$9,315,550 at September 30, 2021.

**B. Investments**

The investment policy of the City is governed by State statutes and the adopted City Investment Policy. City policy governing bank deposits require depositors to be FDIC-insured institutions; depositories must fully collateralize all deposits in excess of FDIC insurance limits. The City's investment policy limits investments to obligations of the United States of America and its agencies, investment quality obligations of the states with a rating of AAA, fully insured certificates of deposit.

The City has invested in TexPool Investment Pool, a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. TexPool Investment Pool's Liquidity Plus Fund uses a dollar weighted average maturity of 120 days or fewer and the net asset value of the shares invested are expected to maintain a net asset value of approximately \$1. The net asset value of the shares invested in the fund do not fluctuate based on the fund's current market value.

The City does not own specific, identifiable investments with TexPool Investment Pool. The City considers the holdings in these pools to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment policy requires that securities be insured and registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City's name, and all securities are registered in the City's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with which the City will transact, portfolio diversification, and limiting maturity.

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The City did not engage in repurchase or reverse repurchase agreement transactions during the year. The City’s investments were as follows on September 30, 2021:

	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>	<u>Rating</u> <u>Standard</u> <u>&amp; Poors</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u>
Primary Government				
Cash	\$ 14,090,426			
Restricted cash	1,536,398			
Investments not subject to categorization:				
Government sponsored investment pool (TexPool)	42,415	\$ 42,415	AAAm	34 days
Restricted government sponsored investment pool (TexStar)	<u>1,536,398</u>	<u>\$ 1,536,398</u>	AAAm	46 days
Total Cash and Cash Equivalents	<u>\$ 17,205,637</u>			

The City invests in the public funds investment pools listed above, which have specified maximum weighted average maturities for their investment portfolios. The maximum weighted average maturity (WAM) of TexPool investment portfolios cannot exceed 60 days. TexSTAR also maintains a portfolio maximum WAM of 60 days calculated according to SEC rule 2a-7.

The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Inter-local Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool.

The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poor’s. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor’s, as well as the Office of the State Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities to invest their public funds through the investment pools. TexSTAR is administered by JP Morgan Chase and First Southwest Asset Management, Inc., and is rated AAAm by Standard and Poor’s.

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Concentration of credit risk. The City has no formal policy addressing credit risk. However, safety of principal is the primary objective of the City’s investment policy. In accordance with this objective, the City limits its investments to those that have been issued one of the top ratings by nationally recognized credit rating agency. As of September 30, 2021, the City’s investment in TexPool and TexSTAR were rated AAAM by Standard & Poor’s.

Custodial credit risk – investments. For an investment, this is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy states that investments of City funds shall be secured by pledged collateral with a fair value equal to or exceeding 102% of the principal plus accrued interest of deposits at financial institutions.

**C. Receivables and Interfund Receivables and Payables**

Amounts are aggregated into a single accounts receivable (net of uncollectible) line on the statement of net position.

Following is the detail of receivables of the government’s individual major and non-major funds, including the applicable allowances for uncollectible accounts, as of September 30, 2021:

	General Fund	Water and Sewer Fund	Total Primary Government
	<u>          </u>	<u>          </u>	<u>          </u>
Receivables:			
Property tax	\$ 153,058	\$ -	\$ 153,058
Sales tax	433,802	-	433,802
Other	171,443	1,402,137	1,573,580
Gross Receivables	<u>\$ 758,303</u>	<u>\$ 1,402,137</u>	<u>\$ 2,160,440</u>
Less: Allowance	<u>(37,715)</u>	<u>(381,866)</u>	<u>(419,581)</u>
Net Total Receivables	<u><u>\$ 720,588</u></u>	<u><u>\$ 1,020,271</u></u>	<u><u>\$ 1,740,859</u></u>

The composition of internal balances as of September 30, 2021 is as follows:

	Due From Other Funds	Due To Other Funds	Internal Balances
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Governmental Funds:</b>			
General	\$ -	\$ (11,945)	\$ (11,945)
Cemetery Maintenance	11,945	-	11,945
	<u>\$ 11,945</u>	<u>\$ (11,945)</u>	<u>\$ -</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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**D. Interfund Transfers**

Following is a summary of transfers to/from other funds for the year ended September 30, 2021:

	<u>Transfers To Other Funds</u>	<u>Transfers From Other Funds</u>	<u>Net Transfers</u>
<b>Governmental Funds:</b>			
General	\$ 500,000	\$ 419,261	
Capital Projects	-	500,000	
Nonmajor	128,404	-	
	<u>\$ 628,404</u>	<u>\$ 919,261</u>	<u>\$ 290,857</u>
<b>Proprietary Funds:</b>			
Water and Sewer	\$1,972,696	\$ 1,657,958	
Airport	-	23,881	
	<u>\$1,972,696</u>	<u>\$ 1,681,839</u>	<u>\$ (290,857)</u>

Interfund transfers are used to pay an allocation of general and administrative services, provide funds for debt service, and contribute toward the cost of capital projects and for other operational purposes.

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**E. Capital Assets**

Capital assets activity for the governmental activities for the year ended September 30, 2021 are as follows:

	Balance 9/30/2020	Additions	Retirements	Prior Period Adjustments	Balance 9/30/2021
<b>GOVERNMENTAL ACTIVITIES:</b>					
Capital assets, not being depreciated:					
Land	\$ 636,543	\$ -	\$ -	\$ -	\$ 636,543
Construction in progress	48,716	-	-	-	48,716
Total capital assets not being depreciated	<u>685,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>685,259</u>
Capital assets, being depreciated:					
Buildings	3,268,188	-	-	-	3,268,188
System improvements	4,613,134	41,513	-	-	4,654,647
Machinery and equipment	4,857,041	288,067	(35,953)	55,367	5,164,522
Total capital assets being depreciated	<u>12,738,363</u>	<u>329,580</u>	<u>(35,953)</u>	<u>55,367</u>	<u>13,087,357</u>
Less accumulated depreciation for:					
Buildings	(1,150,557)	(81,260)	-	-	(1,231,817)
System improvements	(2,606,357)	(146,375)	-	-	(2,752,732)
Machinery and equipment	(3,062,788)	(427,801)	8,389	(24,932)	(3,507,132)
Total accumulated depreciation	<u>(6,819,702)</u>	<u>(655,436)</u>	<u>8,389</u>	<u>(24,932)</u>	<u>(7,491,681)</u>
Total capital assets being depreciated, net	<u>5,918,661</u>	<u>(325,856)</u>	<u>(27,564)</u>	<u>30,435</u>	<u>5,595,676</u>
Governmental activities capital assets, net	<u>\$ 6,603,920</u>	<u>\$ (325,856)</u>	<u>\$ (27,564)</u>	<u>\$ 30,435</u>	<u>\$ 6,280,935</u>

Depreciation expense was charged to functions/programs of governmental activities for the year ended September 30, 2021 as follows:

Governmental activities:	
General government and administration	\$ 13,680
Public safety	226,062
Culture and recreation	138,934
Public works	276,760
Total depreciation expense	<u>\$ 655,436</u>

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Capital asset activity for business-type activities for the year ended September 30, 2021 are as follows:

	Balance 9/30/2020	Additions	Retirements	Transfers	Balance 9/30/2021
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Capital assets, not being depreciated:					
Land	\$ 300,339	\$ -	\$ -	\$ -	\$ 300,339
Construction in progress	1,502,327	414,061	-	(530,608)	1,385,780
Total capital assets not being depreciated	<u>1,802,666</u>	<u>414,061</u>	<u>-</u>	<u>(530,608)</u>	<u>1,686,119</u>
Capital assets, being depreciated:					
Buildings and improvements	55,404,252	2,776,680	-	530,608	58,711,540
Machinery and equipment	5,795,506	102,531	-	-	5,898,037
Total capital assets being depreciated	<u>61,199,758</u>	<u>2,879,211</u>	<u>-</u>	<u>530,608</u>	<u>64,609,577</u>
Less accumulated depreciation for:					
Buildings and improvements	(33,257,970)	(1,369,273)	-	-	(34,627,243)
Machinery and equipment	(4,773,955)	(212,698)	-	-	(4,986,653)
Total accumulated depreciation	<u>(38,031,925)</u>	<u>(1,581,971)</u>	<u>-</u>	<u>-</u>	<u>(39,613,896)</u>
Total capital assets being depreciated, net	<u>23,167,833</u>	<u>1,297,240</u>	<u>-</u>	<u>530,608</u>	<u>24,995,681</u>
Business-type activities capital assets, net	<u>\$ 24,970,499</u>	<u>\$ 1,711,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,681,800</u>

Depreciation expense was charged to functions/programs of the business-type activities for the year ended September 30, 2021 as follows:

Business-type activities:	
Water and sewer	\$ 1,557,941
Municipal airport	24,030
Total depreciation expense	<u>\$ 1,581,971</u>

**F. Risk Management**

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for providing coverage against risks that are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, aviation, automobile, property and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies' reinsurance contracts.

The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on other risks of loss.

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The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the past three years.

**G. Long-term Liabilities**

Long-term debt of the City governmental activities consists of general obligation bonds, capital leases, notes payable, and accrued compensated absences. Sources of retirement of general obligation bond and certificates of obligation are provided from ad valorem tax. Governmental activities long-term debt is paid by the General Fund.

Long-term debt of the City business-type activities consists of general obligation and revenue bonds, capital leases, notes payable, and accrued compensated absences. Business-type activities long-term debt is serviced by revenue from the water and sewer systems, as well as ad valorem taxes.

The following is a summary of changes in long-term debt for governmental activities for the year ended September 30, 2021:

Description	September 30, 2020 (As Restated)	Additions	Retirements	September 30, 2021	Due Within One Year	Long-Term Portion
<b>Governmental activities:</b>						
Bonds payable	\$ 640,000	\$ -	\$ (155,000)	\$ 485,000	\$ 160,000	\$ 325,000
Capital lease obligations	1,153,948	159,440	(240,079)	1,073,309	228,368	844,941
Notes payable	447,696	-	(108,703)	338,993	119,093	219,900
<b>Total long-term debt</b>	<u>2,241,644</u>	<u>159,440</u>	<u>(503,782)</u>	<u>1,897,302</u>	<u>507,461</u>	<u>1,389,841</u>
Compensated absences	129,915	129,915	(129,915)	129,915	129,915	-
<b>Total long-term liabilities</b>	<u>\$ 2,371,559</u>	<u>\$ 289,355</u>	<u>\$ (633,697)</u>	<u>\$ 2,027,217</u>	<u>\$ 637,376</u>	<u>\$ 1,389,841</u>

The following is a summary of changes in long-term debt for business-type activities for the year ended September 30, 2021:

Description	September 30, 2020	Additions	Retirements	Refunded	September 30, 2021	Due Within One Year	Long-Term Portion
<b>Business-type activities:</b>							
Bonds payable	\$ 15,425,000	\$ 6,150,000	\$ (895,000)	\$(5,960,000)	\$ 14,720,000	\$ 1,020,000	\$ 13,700,000
Revenue bonds	9,525,000	-	(475,000)	-	9,050,000	475,000	8,575,000
Capital lease obligations	129,619	-	(50,198)	-	79,421	40,655	38,766
Notes payable	819,915	-	(54,836)	-	765,079	56,751	708,328
Bond discount	(6,851)	-	6,851	-	-	-	-
<b>Total long-term debt</b>	<u>25,892,683</u>	<u>6,150,000</u>	<u>(1,468,183)</u>	<u>(5,960,000)</u>	<u>24,614,500</u>	<u>1,592,406</u>	<u>23,022,094</u>
Compensated absences	65,139	65,139	(65,139)	-	65,139	65,139	-
<b>Total long-term liabilities</b>	<u>\$ 25,957,822</u>	<u>\$ 6,215,139</u>	<u>\$(1,533,322)</u>	<u>\$(5,960,000)</u>	<u>\$ 24,679,639</u>	<u>\$ 1,657,545</u>	<u>\$ 23,022,094</u>

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Compensated absences are paid from the fund out of which an employee is regularly paid – primarily the General Fund and Water and Sewer Fund.

Long-term debt of the City is comprised of the following individual issues at September 30, 2021:

<u>Purpose</u>	<u>Original Amount</u>	<u>Year of Issue</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
<b>General obligation bonds</b>						
Infrastructure	1,500,000	2014	2024	2.19%	\$ 485,000	\$ -
Refunding	4,975,000	2017	2036	1.75 - 4.25%	-	4,280,000
Refunding	2,570,000	2020	2035	2.00 - 4.00%	-	2,455,000
Refunding	6,150,000	2021	2036	4.25 - 5.10%	-	6,150,000
					<u>485,000</u>	<u>12,885,000</u>
<b>Combination bonds</b>						
Infrastructure	8,005,000	2011	2021	4.00 - 4.50%	-	-
Infrastructure	2,410,000	2020	2027	1.35%	-	1,835,000
					<u>-</u>	<u>1,835,000</u>
<b>Revenue bonds</b>						
Infrastructure	10,000,000	2019	2039	0.16 - 1.47%	-	9,050,000
					<u>-</u>	<u>9,050,000</u>
				<b>Total Bonds Payable</b>	<u>485,000</u>	<u>23,770,000</u>
<b>Notes payable</b>						
Building Improvements	460,025	2014	2024	3.40%	154,481	-
Equipment	132,995	2016	2021	Variable	33,122	-
Equipment	220,620	2019	2025	3.00%	151,390	-
Energy Savings	949,000	2018	2033	3.42%	-	765,079
				<b>Total Notes Payable</b>	<u>338,993</u>	<u>765,079</u>
<b>Leases payable</b>						
Equipment	652,049	2019	2025	3.12%	463,698	-
Equipment	231,850	2018	2033	3.86%	151,574	-
Equipment	80,250	2018	2033	3.07%	50,614	-
Enterprise Fleet Management	N/A	N/A	N/A	2.75%	407,423	79,421
					<u>1,073,309</u>	<u>79,421</u>
				<b>Total Debt</b>	<u>\$ 1,897,302</u>	<u>\$ 24,614,500</u>

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The annual debt service requirements to maturity for bonds are as follows:

Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 160,000	\$ 8,870	\$ 1,495,000	\$ 420,256
2023	160,000	5,366	1,520,000	404,255
2024	165,000	1,807	1,535,000	386,190
2025	-	-	1,580,000	366,121
2026	-	-	1,625,000	342,916
2027-2031	-	-	7,035,000	1,329,045
2032-2036	-	-	7,355,000	610,420
2037-2039	-	-	1,625,000	47,082
	<u>\$ 485,000</u>	<u>\$ 16,043</u>	<u>\$ 23,770,000</u>	<u>\$ 3,906,285</u>

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

Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 119,093	\$ 10,874	\$ 56,741	\$ 25,516
2023	88,749	7,016	58,712	23,545
2024	91,611	4,154	60,752	21,505
2025	39,540	1,190	62,862	19,394
2026	-	-	65,046	17,210
2027-2031	-	-	360,739	50,543
2032-2033	-	-	100,227	2,593
	<u>\$ 338,993</u>	<u>\$ 23,234</u>	<u>\$ 765,079</u>	<u>\$ 160,306</u>

The annual debt service requirements to maturity for capital leases are as follows:

Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 228,368	\$ 61,826	\$ 40,655	\$ 12,417
2023	213,875	53,013	23,810	7,407
2024	216,974	42,443	9,565	2,655
2025	147,113	27,112	5,391	1,348
2026	266,979	4,537	-	-
	<u>\$ 1,073,309</u>	<u>\$ 188,931</u>	<u>\$ 79,421</u>	<u>\$ 23,827</u>

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**H. Deferred Charges on Refunding**

Deferred charges resulting from the issuance of Series 2017, 2020, 2021 general obligation refunding bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding bonds.

Business type activities reported deferred outflows of \$646,818 for the year ended September 30, 2021.

**I. Fund Balances**

The table below shows the purposes for which fund balance has been categorized as non-spendable, restricted, committed, with the remainder unassigned:

	Major Funds			Non-Major Funds	Total
	General Fund	Grant Fund	Capital Projects Fund		
Fund Balances (Deficit):					
Nonspendable:					
Inventory	\$ 44,731	\$ -	\$ -	\$ -	\$ 44,731
Restricted:					
Debt Service	168,870	-	-	-	168,870
Municipal Court Security	-	-	-	28,518	28,518
Donations	-	-	-	29,765	29,765
Public Safety	-	-	-	37,141	37,141
Motel Occupancy	-	-	-	180,569	180,569
Cemetery Maintenance	-	-	-	23,607	23,607
Capital Projects	-	-	500,000	-	500,000
Unassigned:	\$2,121,506	402,444	-	-	2,523,950
	\$2,335,107	\$ 402,444	\$500,000	\$ 299,600	\$3,537,151

**CITY OF GATESVILLE, TEXAS**  
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**J. Texas Department of Corrections Water Service Contracts**

The City has an agreement to supply water and sewer disposal for the Texas Department of Corrections. The cost of water and sewer services to the Texas Department of Corrections is based on 1) charges for raw water supplied, 2) operation and maintenance charges based on volume and 3) an allocation of total construction costs. Payments for these charges began in March of 1990, and the monthly charges for these items are as follows:

	Water	Sewer
Mountainview Unit	\$3.00 per 1,000 Base Charge: \$278.67	\$2.29 per 1,000 Base Charge: \$300.72
Hughes Unit (10" Meter)	\$3.00 per 1,000 Base Charge: \$625.33	\$2.29 per 1,000 Base Charge: \$300.72
Hughes Unit (2" Meter)	\$3.00 per 1,000 Base Charge: \$54.67	\$2.29 per 1,000 Base Charge: \$300.72
Hilltop Unit (6" Low and High Flow Meters)	\$3.00 per 1,000 Base Charge: \$278.67	\$2.29 per 1,000 Base Charge: \$300.72
Murray Unit (10" Meter)	\$3.00 per 1,000 Base Charge: \$625.33	\$2.29 per 1,000 Base Charge: \$300.72
Murray Unit (2" Meter)	\$3.00 per 1,000 Base Charge: \$54.67	\$2.29 per 1,000 Base Charge: \$300.72

**III. OTHER INFORMATION**

**A. Employee Retirement Systems and Pension Plans**

**Plan Description**

The City participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.

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TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**Benefits Provided**

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

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

**Employees covered by benefit terms:**

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

Inactive employees or beneficiaries currently receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	33
Active employees	81
Total	166

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.11% and 14.97% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$622,060 and were equal to the required contributions.

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**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial Assumptions:***

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

Inflation	2.5% per year
Salary Increases	3.50% to 11.50%, including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates projected on a fully generation basis by Scale UMP to account for future mortality improvements. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. For disabled annuitants, the mortality tables for health retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018.

They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments is 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	<u>100.0%</u>	

***Discount Rate:***

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

**CITY OF GATESVILLE, TEXAS**  
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**Changes in the Net Pension Liability:**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(c)
Balance at 12/31/2019	\$20,555,757	\$ 18,098,966	\$ 2,456,791
Changes for the year:			
Service cost	690,093	-	690,093
Interest	1,381,511	-	1,381,511
Change of benefit terms including substantively automatic status	-	-	-
Difference between expected and actual experience	(277,563)	-	(277,563)
Change in assumptions	-	-	-
Contributions - employer	-	622,620	(622,620)
Contributions - employee	-	292,767	(292,767)
Net investment income	-	1,374,403	(1,374,403)
Benefit payments, including refunds of employee contributions	(867,941)	(867,941)	-
Amortization of prior year assets	-	-	-
Administrative expense	-	(8,890)	8,890
Other changes	-	(347)	347
Net changes	926,100	1,412,612	(486,512)
Balance at 12/31/2020	\$ 21,481,857	\$ 19,511,578	\$ 1,970,279

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate:**

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net Pension Liability	\$ 5,071,289	\$ 1,970,279	\$ (558,422)

**Pension Plan Fiduciary Net Position:**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2021, the City recognized pension expense of \$217,580. At September 30, 2021, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ (393,333)
Changes in actuarial assumptions	57,970	-
Difference between projected and actual investment earnings	-	(512,065)
Contributions subsequent to the measurement date	448,974	-
<b>Total</b>	<b>\$ 506,944</b>	<b>\$ (905,398)</b>

The \$448,974 of contributions made after the measurement date of the net pension liability but before the end of the City’s reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period. The other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>Deferred Outflow (Inflow) of Resources</b>
<b>Year Ended September 30:</b>	
2022	\$ (327,114)
2023	(95,105)
2024	(385,279)
2025	(39,930)
2026	-
Thereafter	-
	<b>\$ (847,428)</b>

**B. Other Post-Employment Benefits (OPEB) Plan - TMRS**

**Plan Description**

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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.

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The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

**Benefits Provided**

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

**Contributions**

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city.

There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The City’s contributions to the TMRS SDBF for the year ended September 30, 2021 was \$5,293 which equaled the required contributions.

Schedule of Contribution Rates		
(Retiree - only portion of the rate)		
Plan/ Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2020	0.23%	0.06%
2021	0.27%	0.16%

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

Inactive employees currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	11
Active employees	81
Total	127

**Total OPEB Liability**

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

***Actuarial Assumptions:***

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

Inflation	2.5% per year
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	2.00%
Retirees' Share of Benefit-Related Costs	\$0

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal Actuarial Cost Method.

***Discount Rate:***

The discount rate used to measure the Total OPEB Liability was 2.00% and was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2020.

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**Changes in Total OPEB Liability:**

	Total OPEB Liability
Balance at 12/31/2019	\$ 254,347
Changes for the year:	
Service cost	15,057
Interest on Total OPEB Liability	7,167
Change of benefit terms	-
Difference between expected and actual experience	(10,994)
Changes of assumptions or other inputs	38,244
Benefit payments	(2,509)
Net changes	46,965
Balance at 12/31/2020	\$ 301,312

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.00%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (1.00%) or 1 percentage-point higher (3.00%) than the current rate:

	1% Decrease 1.00%	Current Discount Rate 2.00%	1% Increase 3.00%
Total OPEB Liability	\$ 364,426	\$ 301,312	\$ 251,650

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$33,803. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Deferred Outflows/Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Changes of assumptions	\$ 54,756	\$ -
Differences in expected and actual experience	-	(26,246)
Contributions made subsequent to measurement date	3,323	-
	<u>\$ 58,079</u>	<u>\$ (26,246)</u>

The \$3,323 contributions made after the measurement date of the total OPEB liability but before the end of the City's reporting period will be recognized as a reduction of the total OPEB liability in the subsequent fiscal period. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30:</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2022	\$ 9,321
2023	9,294
2024	6,718
2025	1,067
2026	2,110
Thereafter	-
	<u>\$ 28,510</u>

**C. Other Post-Employment Benefits (OPEB) Plan – City Funded Healthcare Plan**

**Plan Description**

In addition to the pension benefits described above, as required by state law, and defined by City Policy, the City makes available health care benefits to all employees who retire from the City through a single-employer defined benefit healthcare plan. This plan covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). This healthcare plan provides lifetime insurance or until 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management and Council. The full cost of the coverage is paid by the retiree, with the rates being the same as an active employee.

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

Retirees and Beneficiaries	1
Inactive, Nonretired Members	-
Active Members	77
Total	78

**Contributions**

The full monthly premium rates for retirees as of October 1, 2020 for each plan are shown as follows:

Rate Tier	CC80	Dental	Vision
Single	\$ 514.74	N/A	N/A
Subscriber and Spouse	\$ 1,183.92	N/A	N/A

***Actuarial Assumptions:***

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

Inflation	2.5% per year
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	2.00%
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 7.00% declining to an ultimate rate of 4.15% after 15 years.

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Forfeiture rates, the rate of withdrawal is based on the withdrawal assumption used in the 2019 Texas Municipality Retirement System Actuarial Valuation. The rate of withdrawal for reasons other than death and retirement is dependent on an employee's age, gender, and years of service. Sample rates are provided below

Termination rates based on first 10 years of service						
	Male			Female		
Age	0	4	9	0	4	9
20	30.79%	19.51%	8.60%	30.80%	20.30%	16.00%
30	25.85%	11.38%	6.55%	26.17%	13.69%	8.17%
40	26.02%	11.03%	6.08%	22.81%	13.16%	7.45%
50	21.91%	10.72%	6.09%	22.38%	9.01%	6.28%
60	21.08%	8.33%	5.79%	22.36%	8.11%	3.86%
70	21.09%	8.45%	5.81%	22.36%	8.13%	3.03%

Termination rates after first 10 years of service		
Years from retirement	Male	Female
1	1.82%	2.34%
5	3.55%	4.67%
10	4.74%	6.30%
15	5.60%	7.50%

**Changes in Total OPEB Liability:**

	<u>Total OPEB Liability</u>
Balance at 12/31/2019	<u>\$ 210,672</u>
Changes for the year:	
Service cost	12,394
Interest on Total OPEB Liability	5,847
Change of benefit terms	-
Difference between expected and actual experience	1,098
Changes of assumptions	15,773
Benefit payments	<u>(8,497)</u>
Net changes	26,615
Balance at 12/31/2020	<u>\$ 237,287</u>

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

The following presents the total OPEB liability of the City related to the healthcare plan, calculated using the discount rate of 2.00%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (1.00%) or 1 percentage-point higher (3.00%) than the current rate:

	1% Decrease 1.00%	Current Discount Rate 2.00%	1% Increase 3.00%
Total OPEB Liability	\$ 260,261	\$ 237,287	\$ 216,581

**Sensitivity of the Total OPEB Liability to the Healthcare Cost Trend Rate Assumption**

The following presents the total OPEB liability of the City related to the healthcare plan, calculated using the assumed trend rate, as well as what the City's total OPEB liability would be if it were calculated using a trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	\$ 208,109	\$ 237,287	\$ 272,763

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

For the year ended September 30, 2021, the City recognized OPEB expense related to the healthcare plan of \$4,954. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Changes of assumptions	\$ -	\$ (6,786)
Differences in expected and actual experience	-	(71,331)
Contributions made subsequent to measurement date	6,373	-
	\$ 6,373	\$ (78,117)

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The \$6,373 contributions made after the measurement date of the total OPEB liability but before the end of the City's reporting period will be recognized as a reduction of the total OPEB liability in the subsequent fiscal period. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30:	Deferred Outflows (Inflows) of Resources
2022	\$ (13,287)
2023	(13,287)
2024	(13,287)
2025	(13,287)
2026	(14,399)
Thereafter	(10,570)
	\$ (78,117)

**D. Consolidated OPEB Balances for All Plans**

The following presents the combined total OPEB liabilities as well as deferred outflows and inflows of resources for the TMRS and the City funded health care plan:

<b>Deferred Outflows of Resources - OPEB</b>			
<b><u>Contributions Subsequent to the Measurement Date</u></b>			
	<b><u>TMRS</u></b>	<b><u>City Funded</u></b>	<b><u>Total</u></b>
Governmental Activities	\$ 2,137	\$ 4,099	
Business-type Activities	1,186	2,274	
<b>Total</b>	<b>\$ 3,323</b>	<b>\$ 6,373</b>	<b>\$ 9,696</b>
<b><u>Changes in Actuarial Assumptions</u></b>			
	<b><u>TMRS</u></b>	<b><u>City Funded</u></b>	<b><u>Total</u></b>
Governmental Activities	\$ 35,217	\$ -	
Business-type Activities	19,539	-	
<b>Total</b>	<b>\$ 54,756</b>	<b>\$ -</b>	<b>\$ 54,756</b>
<b>Total Deferred Outflows of Resources</b>			<b>\$ 64,452</b>
<b>OPEB Liabilities</b>			
<b><u>Total OPEB Liabilities</u></b>			
	<b><u>TMRS</u></b>	<b><u>City Funded</u></b>	<b><u>Total</u></b>
Governmental Activities	\$ (193,791)	\$ (152,613)	
Business-type Activities	(107,521)	(84,674)	
<b>Total</b>	<b>\$ (301,312)</b>	<b>\$ (237,287)</b>	<b>\$ (538,599)</b>

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**Deferred Inflows of Resources - OPEB**

**Changes in Actuarial Assumptions**

	<u>TMRS</u>	<u>City Funded</u>	<u>Total</u>
Governmental Activities	\$ -	\$ (4,364)	\$ -
Business-type Activities	-	(2,422)	-
Total	<u>\$ -</u>	<u>\$ (6,786)</u>	<u>\$ (6,786)</u>

**Differences Between Expected and Actual Economic Experience**

	<u>TMRS</u>	<u>City Funded</u>	<u>Total</u>
Governmental Activities	\$ (16,880)	\$ (45,877)	
Business-type Activities	(9,366)	(25,454)	
Total	<u>\$ (26,246)</u>	<u>\$ (71,331)</u>	<u>\$ (97,577)</u>

**Total Deferred Inflows of Resources** \$ (104,363)

**E. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

As a debt issuer, the City is subject to Federal arbitrage regulations and periodically determines its compliance and returns excess interest earned on bond proceeds, if necessary.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

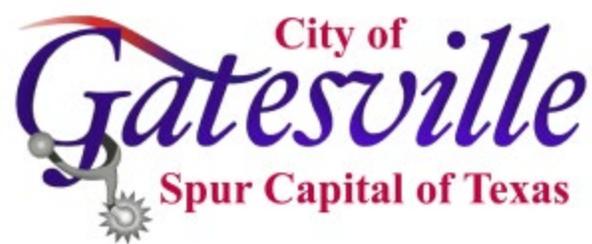
**F. Prior Period Adjustments**

Fund balances and net position have been restated for the creation of funds, correction of errors, and for revenues and expenses recorded in the incorrect period. The table below summarizes the effect, by fund, of these restatements:

	Beginning Balances, as Previously Reported	Prior Period Adjustment	Beginning Balances, as Restated
Governmental Activities	<u>\$ 4,282,309</u>	<u>\$ 237,139</u>	<u>\$ 4,519,448</u>
General Fund	\$ 1,839,613	\$ 252,206	\$ 2,091,819
Grant Fund	-	35,973	35,973
Municipal Court Security Fund	-	31,641	31,641
Donations Fund	-	10,908	10,908
Public Safety Fund	-	35,649	35,649
Cemetery Maintenance Fund	-	11,662	11,662
<b>Total Governmental Funds</b>	<u>\$ 1,839,613</u>	<u>\$ 378,039</u>	<u>\$ 2,217,652</u>
Water and Sewer Fund	<u>\$ 12,324,986</u>	<u>\$ 501,792</u>	<u>\$ 12,826,778</u>
<b>Total Proprietary Funds</b>	<u>\$ 12,324,986</u>	<u>\$ 501,792</u>	<u>\$ 12,826,778</u>

**G. Subsequent Events**

Management has evaluated all events or transactions that occurred after September 30, 2021 up through the date of the auditor's report date. This is the date the financial statements were available for issuance. There are no subsequent events requiring disclosure.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

# CITY OF GATESVILLE, TEXAS

## SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS<sup>1</sup> TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN MEASURED YEARS

Measurement Date	12/31/2020	12/31/2019	12/31/2018	12/31/2017
<b>Total Pension Liability</b>				
Service cost	\$ 690,093	\$ 619,680	\$ 603,610	\$ 594,731
Interest on total pension liability	1,381,511	1,316,406	1,256,097	1,196,570
Difference between expected and actual experience	(277,563)	(232,325)	(92,837)	(150,538)
Change in assumptions	-	104,908	-	-
Benefit payments/refunds of contributions	(867,941)	(890,753)	(872,133)	(654,499)
Net change in total pension liability	<u>926,100</u>	<u>917,916</u>	<u>894,737</u>	<u>986,264</u>
Total pension liability, beginning	<u>20,555,757</u>	<u>19,637,841</u>	<u>18,743,104</u>	<u>17,756,840</u>
Total pension liability, ending (a)	<u><u>\$ 21,481,857</u></u>	<u><u>\$ 20,555,757</u></u>	<u><u>\$ 19,637,841</u></u>	<u><u>\$ 18,743,104</u></u>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 622,620	\$ 572,510	\$ 564,950	\$ 549,367
Employee contributions	292,767	266,284	255,303	250,037
Net investment income	1,374,403	2,433,349	(487,950)	1,966,183
Benefit payments/refunds of contributions	(867,941)	(890,753)	(872,133)	(654,499)
Administrative expenses	(8,890)	(13,742)	(9,426)	(10,186)
Other	(347)	(413)	(492)	(515)
Net change in plan fiduciary net position	<u>1,412,612</u>	<u>2,367,235</u>	<u>(549,748)</u>	<u>2,100,387</u>
Plan fiduciary net position, beginning	<u>18,098,966</u>	<u>15,731,731</u>	<u>16,281,479</u>	<u>14,181,092</u>
Plan fiduciary net position, ending (b)	<u><u>\$ 19,511,578</u></u>	<u><u>\$ 18,098,966</u></u>	<u><u>\$ 15,731,731</u></u>	<u><u>\$ 16,281,479</u></u>
Net pension liability/(asset) ending = (a) - (b)	<u><u>\$ 1,970,279</u></u>	<u><u>\$ 2,456,791</u></u>	<u><u>\$ 3,906,110</u></u>	<u><u>\$ 2,461,625</u></u>
Plan fiduciary net position as a % of total pension liability	90.83%	88.05%	80.11%	86.87%
Covered payroll	\$ 4,182,380	\$ 3,804,052	\$ 3,647,188	\$ 3,571,960
Net pension liability as a % of covered payroll	47.11%	64.58%	107.10%	68.92%

**Notes to Schedule:**

<sup>1</sup> This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, only available information is shown.

<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
\$ 574,521	\$ 578,197	\$ 506,716
1,130,444	1,115,252	1,029,818
(92,529)	(214,116)	264,700
-	16,497	-
(631,309)	(726,384)	(506,596)
<u>981,127</u>	<u>769,446</u>	<u>1,294,638</u>
16,775,713	16,006,267	14,711,629
<u>\$ 17,756,840</u>	<u>\$ 16,775,713</u>	<u>\$ 16,006,267</u>
\$ 551,291	\$ 548,786	\$ 527,696
242,706	245,328	236,938
888,332	19,281	693,519
(631,309)	(726,384)	(506,596)
(10,030)	(11,743)	(7,240)
(540)	(579)	(595)
<u>1,040,450</u>	<u>74,689</u>	<u>943,722</u>
13,140,642	13,065,953	12,122,231
<u>\$ 14,181,092</u>	<u>\$ 13,140,642</u>	<u>\$ 13,065,953</u>
<u>\$ 3,575,748</u>	<u>\$ 3,635,071</u>	<u>\$ 2,940,314</u>
79.86%	78.33%	81.63%
\$ 3,467,235	\$ 3,485,215	\$ 3,384,835
103.13%	104.30%	86.87%

**CITY OF GATESVILLE, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS TO PENSION PLAN<sup>1</sup>**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**LAST TEN FISCAL YEARS**

	<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>
Actuarially determined employer contributions	\$ 622,060	\$ 592,104	\$ 567,742	\$ 558,291
Contributions in relation to the actuarially determined contribution	<u>622,060</u>	<u>592,104</u>	<u>567,742</u>	<u>558,291</u>
Contribution deficiency (excess)	-	-	-	-
Annual covered payroll	\$ 4,471,335	\$ 3,968,401	\$ 3,746,440	\$ 3,610,241
Employer contributions as a percentage of covered payroll	13.91%	14.92%	15.15%	15.46%

<sup>1</sup> This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

**NOTES TO SCHEDULE OF CONTRIBUTIONS TO PENSION PLAN**

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes There were no benefit changes during the year.

<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
\$ 548,748	\$ 570,438	\$ 547,508
<u>548,748</u>	<u>570,438</u>	<u>547,508</u>
-	-	-
\$ 3,540,264	\$ 3,602,812	\$ 3,317,279
15.50%	15.83%	16.50%

# CITY OF GATESVILLE, TEXAS

## SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS<sup>1</sup> TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN MEASURED YEARS

	12/31/2020	12/31/2019	12/31/2018	12/31/2017
<b>Total OPEB liability</b>				
Service Cost	\$ 15,057	\$ 9,891	\$ 11,306	\$ 9,644
Interest (on the Total OPEB Liability)	7,167	10,204	7,011	6,862
Effect of plan changes	-	-	-	-
Differences between expected and actual experience	(10,994)	(74,505)	61,714	-
Changes in assumptions or other inputs	38,244	39,604	(14,041)	15,105
Benefit payments	(2,509)	(1,902)	(2,188)	(2,143)
<b>Net Change in Total OPEB Liability</b>	46,965	(16,708)	63,802	29,468
<b>Total OPEB Liability - Beginning</b>	254,347	271,055	207,253	177,785
<b>Total OPEB Liability - Ending (a)</b>	\$ 301,312	\$ 254,347	\$ 271,055	\$ 207,253
 <b>Covered Payroll</b>	 \$ 4,182,380	 \$ 3,804,052	 \$ 3,647,188	 \$ 3,571,960
 <b>Total OPEB Liability as a Percentage of Covered Payroll</b>	 7.20%	 6.69%	 7.43%	 5.80%

**Notes to Schedule:**

1 This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, only available information is shown.

# CITY OF GATESVILLE, TEXAS

## SCHEDULE OF OPEB CONTRIBUTIONS<sup>1</sup> TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS

	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Actuarially Determined Contribution	\$ 5,293	\$ 2,381	\$ 1,962	\$ 2,166
Contributions in relation to the actuarially determined contribution	5,293	2,381	1,962	2,166
Contribution deficiency (excess)	-	-	-	-
Covered payroll	\$ 4,471,335	\$ 3,968,401	\$ 3,746,440	\$ 3,610,241
Contributions as a percentage of covered payroll	0.12%	0.06%	0.05%	0.06%

<sup>1</sup> This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

### NOTES TO SCHEDULE OF CONTRIBUTIONS

#### Valuation Timing:

Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

#### Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	2.00%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality:	
Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. 2019 Municipal Retirees of Texas Mortality Table with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.
Disabled Retirees	

#### Other Information:

#### Notes

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

# CITY OF GATESVILLE, TEXAS

## SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS HEALTH BENEFIT PLAN LAST TEN MEASURED YEARS

	12/31/2020	12/31/2019	12/31/2018	12/31/2017
<b>Total OPEB liability - City Funded Health Care Plan</b>				
Service Cost	\$ 12,394	\$ 15,797	\$ 14,934	\$ 13,022
Interest (on the Total OPEB Liability)	5,847	11,893	10,445	10,721
Effect of plan changes	-	-	-	-
Differences between expected and actual experience	1,098	(97,835)	1,224	-
Changes in assumptions or other inputs	15,773	(27,351)	(13,651)	16,384
Benefit payments	(8,497)	(9,019)	(7,685)	(6,160)
<b>Net Change in Total OPEB Liability</b>	<u>26,615</u>	<u>(106,515)</u>	<u>5,267</u>	<u>33,967</u>
<b>Total OPEB Liability - Beginning</b>	<u>210,672</u>	<u>317,187</u>	<u>311,920</u>	<u>277,953</u>
<b>Total OPEB Liability - Ending (a)</b>	<u>\$ 237,287</u>	<u>\$ 210,672</u>	<u>\$ 317,187</u>	<u>\$ 311,920</u>
<b>Covered Payroll</b>	\$ 4,190,641	\$ 4,052,108	\$ 3,169,511	\$ 3,494,591
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	5.66%	5.20%	10.01%	8.93%

**Notes to Schedule:**

The ending Total OPEB Liability was as of December 31, 2020.

Changes in assumptions reflect a change in the discount rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020.

The benefit payments during the measurement period were determined as follows:

a. Age adjusted premiums	\$ 26,499	(retiree contributions *1.472)
b. Retiree contributions	<u>(18,002)</u>	(data provided by City)
c. Total benefit payments	\$ 8,497	

# CITY OF GATESVILLE, TEXAS

## SCHEDULE OF OPEB CONTRIBUTIONS

### HEALTH BENEFIT PLAN

### LAST TEN FISCAL YEARS

	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Actuarially Determined Contribution	\$ 18,002	\$ 19,109	\$ 20,170	\$ 16,167
Contributions in relation to the actuarially determined contribution	18,002	19,109	20,170	16,167
Contribution deficiency (excess)	-	-	-	-
Covered payroll	\$ 4,471,335	\$ 3,968,401	\$ 3,746,440	\$ 3,610,241
Contributions as a percentage of covered payroll	0.40%	0.48%	0.54%	0.45%

#### NOTES TO SCHEDULE OF CONTRIBUTIONS

**Valuation Date:** December 31, 2019

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Individual Entry-Age Normal
Discount Rate	2.00%
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation

**Demographic Assumptions** Based on the experience study covering the four-year period ending December 31, 2019 as conducted for the Texas Municipal Retirement System (TMRS).

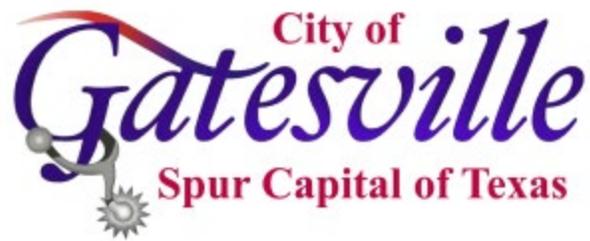
**Mortality** For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements.

**Health Care Trend Rates** Initial rate of 7.00% declining to an ultimate rate of 4.15% after 15 years.

**Participation Rates** 20% of non-Medicare retirees; 0% if retiring prior to age 50.

**Other Information:**

**Notes** The discount rate changed from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020.



**COMBINING FUND  
STATEMENTS**

# CITY OF GATESVILLE, TEXAS

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS AS OF SEPTEMBER 30, 2021

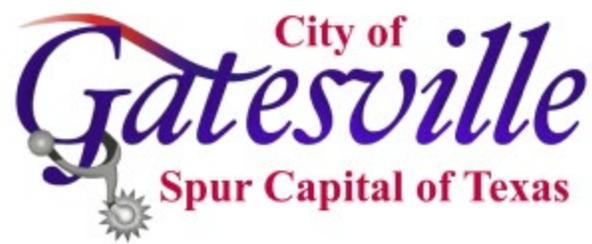
	Municipal Court Security Fund	Donations Fund	Public Safety Fund
<b>Assets</b>			
Cash and cash equivalents	\$ 28,518	\$ 30,572	\$ 37,141
Due from other funds	-	-	
<b>Total Assets</b>	28,518	30,572	37,141
<b>Liabilities</b>			
Accounts payable	-	807	-
	-	807	-
<b>Fund Balances</b>			
Restricted	28,518	29,765	37,141
<b>Total Fund Balances</b>	28,518	29,765	37,141
<b>Total Liabilities and Fund Balances</b>	\$ 28,518	\$ 30,572	\$ 37,141

Motel Occupancy Fund	Cemetery Maintenance Fund	Total Nonmajor Governmental Funds
\$ 181,671	\$ 11,662	\$ 289,564
	11,945	11,945
<u>181,671</u>	<u>23,607</u>	<u>301,509</u>
1,102	-	1,909
<u>1,102</u>	<u>-</u>	<u>1,909</u>
180,569	23,607	299,600
<u>180,569</u>	<u>23,607</u>	<u>299,600</u>
<u>\$ 181,671</u>	<u>\$ 23,607</u>	<u>\$ 301,509</u>

**CITY OF GATESVILLE, TEXAS**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>Municipal Court Security Fund</u>	<u>Donations Fund</u>	<u>Public Safety Fund</u>
<b>Revenues</b>			
Taxes:			
Hotel/motel	\$ -	\$ -	\$ -
Charges for services	-	-	-
Court fines	11,870	-	1,492
Donations	5,405	42,633	-
Interest income	99	-	-
<b>Total Revenues</b>	<u>17,374</u>	<u>42,633</u>	<u>1,492</u>
<b>Expenditures</b>			
Current:			
General government	-	-	-
Public safety	7,405	14,844	-
Culture and recreation	-	926	-
Capital outlay	-	8,006	-
<b>Total Expenditures</b>	<u>7,405</u>	<u>23,776</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	9,969	18,857	1,492
<b>Other Financing Sources (Uses)</b>			
Transfers out	(13,092)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(13,092)</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(3,123)	18,857	1,492
<b>Beginning Fund Balances, as Restated</b>	31,641	10,908	35,649
<b>Ending Fund Balances</b>	<u>\$ 28,518</u>	<u>\$ 29,765</u>	<u>\$ 37,141</u>

Motel Occupancy Fund	Cemetery Maintenance Fund	Total Nonmajor Governmental Funds
\$ 102,497	\$ -	\$ 102,497
-	13,500	13,500
-	-	13,362
-	-	48,038
604	-	703
<u>103,101</u>	<u>13,500</u>	<u>178,100</u>
-	1,555	1,555
-	-	22,249
41,394	-	42,320
-	-	8,006
<u>41,394</u>	<u>1,555</u>	<u>74,130</u>
61,707	11,945	103,970
<u>(115,312)</u>	<u>-</u>	<u>(128,404)</u>
<u>(115,312)</u>	<u>-</u>	<u>(128,404)</u>
(53,605)	11,945	(24,434)
234,174	11,662	324,034
<u>\$ 180,569</u>	<u>\$ 23,607</u>	<u>\$ 299,600</u>



## **COMPLIANCE SECTION**



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

To the Mayor & City Council of  
City of Gatesville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gatesville, Texas (City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 24, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did identify a deficiency in internal control, as described in the accompanying Schedule of Audit Findings and Responses as item 2021-001 that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

### **City's Response to Findings**

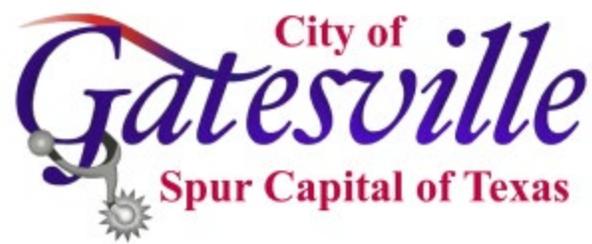
The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Board'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LaFollett & Company PLLC  
Tom Bean, Texas  
May 24, 2022



**CITY OF GATESVILLE, TEXAS**  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**FINANCIAL STATEMENT FINDINGS**

***Material Weakness***

2021-001: Internal Controls over Financial Reporting

Criteria: Proper internal controls over financial reporting, including review and supervision, should be adequate to ensure that all financial balances are properly recorded in the general ledger.

Condition: The City does not have written financial policies and procedures that include internal controls over financial reporting to ensure that all financial balances are properly recorded in the general ledger. We noted material adjustments to numerous balances were required that likely would have been detected by the City during the closing process, if proper internal controls, including review and supervision, were in place.

Possible Asserted

Effect: The internal control objectives are compromised and may not provide for the timely detection and correction of errors.

Cause: Internal controls were not designed and implemented to ensure that balances are properly recorded in the general ledger.

Perspective: Written financial policies and procedures will provide a basis for proper internal controls over financial reporting.

Recommendation: Design and implement written financial policies and procedures that include internal controls over financial reporting to ensure that all financial balances are properly recorded in the general ledger. These controls should provide for adequate and timely reconciliation of the balances and include proper review and supervision. Consider hiring a consultant to assist with this process, if needed.

Management's  
Response:

We acknowledge the need for a formal written financial policy and procedures document. We appreciate the thoroughness of the internal control review, and the constructive feedback received. We look forward to developing and implementing the recommended controls and policies to enhance the public's confidence in our City's financial stewardship.