

CITY OF GATESVILLE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

THIS PAGE LEFT INTENTIONALLY BLANK

**CITY OF GATESVILLE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12-13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	18-19
Statement of Net Position – Proprietary Funds	20-21
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23-24
Statement of Fiduciary Assets and Liabilities – Agency Funds	25
Statement of Revenues, Expenses, and Changes in Fund Balance – Agency Funds	26
Notes to the Financial Statements	27-58

**CITY OF GATESVILLE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

TABLE OF CONTENTS

	<u>Page</u>
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios	59
Schedule of Contributions	60
Schedule of Changes in OPEB-SDB Liability and Related Ratios	61
Notes to OPEB -SDB Liability	62
Schedule of Changes in OPEB Liability and Related Ratios	63
Notes to OPEB – Health Benefits	64
Combining Fund Statements:	
Combining Financial Statements – Nonmajor Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	66
 OTHER SCHEDULES	
Schedule of Insurance Coverage	67-68
Schedule of Customers – Water and Sewer Enterprise Fund	69
 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 <i>Government Auditing Standards</i>	70-71

FINANCIAL SECTION

THIS PAGE LEFT INTENTIONALLY BLANK



Lott, Vernon & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Ronald E. Stepp, CPA
Jerry D. Tyroch Jr., CPA
Dane Legg, CPA
Deborah K. Hershberger, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the 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 City of Gatesville, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gatesville, Texas, as of September 30, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and other post-employment benefits schedules, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and 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

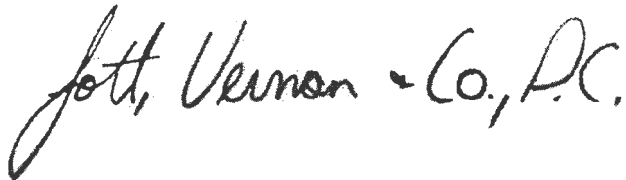
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gatesville, Texas' basic financial statements. The combining and individual non-major fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund 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 and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide an assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2021, on our consideration of the City of Gatesville, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Gatesville, Texas' 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 City of Gatesville, Texas's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jett, Vernon & Co., P.C." The signature is written in a cursive, flowing style.

Killeen, Texas
February 15, 2021

THIS PAGE LEFT INTENTIONALLY BLANK

Management's Discussion and Analysis

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, 2020.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2020, by \$17,027,180 (net position). Of this amount \$12,480,360 is restricted for capital assets and \$2,192,097 is restricted for debt services.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$4,282,309.
- As of September 30, 2020, unassigned fund balance for the General Fund was \$2,073,787.

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 and liabilities, with the difference between the two 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 compensation 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, streets, and culture and recreation. The business-type activities of the City include water and sewer, fitness center and airport operations.

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 statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other 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 and schedules elsewhere in this report.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the Enterprise 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.

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 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 \$17,027,180 as of September 30, 2020.

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.

CITY OF GATESVILLE'S NET POSITION

	Government Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 2,869,009	\$ 2,547,941	\$ 14,744,394	\$ 12,461,429	\$ 17,613,403	\$ 15,009,370
Capital assets	6,603,920	6,944,708	24,970,499	25,542,035	31,574,419	32,486,743
Total assets	9,472,929	9,492,649	39,714,893	38,003,464	49,187,822	47,496,113
Deferred Outflows of resources	429,970	926,099	721,080	767,084	1,151,050	739,956
Current liabilities	752,824	688,005	440,797	482,061	1,193,621	1,170,066
Noncurrent liabilities	4,163,910	5,521,827	26,915,944	26,026,607	31,079,854	31,548,434
Total liabilities	4,916,734	6,209,832	27,356,741	26,508,668	32,273,475	32,718,500
Deferred Inflows of resources	703,856	153,235	334,361	79,221	1,038,217	739,956
Net position:						
Invested in capital assets net of related debt	4,533,612	4,567,927	7,946,748	9,865,992	12,480,360	14,433,919
Restricted	401,493	398,183	2,024,778	1,835,546	2,426,271	2,233,729
Unrestricted	(652,796)	(910,429)	2,773,345	481,121	2,120,549	(429,308)
Total net position	\$ 4,282,309	\$ 4,055,681	\$ 12,744,871	\$ 12,182,659	\$ 17,027,180	\$ 16,238,340

As of September 30, 2020, 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'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 312,971	\$ 390,994	\$ 9,257,032	\$ 8,499,605	\$ 9,570,003	\$ 8,890,599
Operating grants	316,385	61,321	-	-	316,385	61,321
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	2,557,629	2,392,055	-	-	2,557,629	2,392,055
Sales taxes	2,283,134	2,227,301	-	-	2,283,134	2,227,301
Franchise taxes	378,414	353,973	-	-	378,414	353,973
Hotel/motel taxes	113,545	150,156	-	-	113,545	150,156
Other taxes	13,261	15,436	-	-	13,261	15,436
Investment earnings	10,952	22,119	91,192	100,415	102,144	122,534
Unrestricted contributions	27,038	30,205	-	-	27,038	30,205
Miscellaneous	213,380	313,378	-	-	213,380	313,378
Total revenues	<u>6,226,709</u>	<u>5,956,938</u>	<u>9,348,224</u>	<u>8,600,020</u>	<u>15,574,933</u>	<u>14,556,958</u>
Expenses:						
General government	911,438	837,004	-	-	911,438	837,004
Public safety	3,030,185	2,572,830	-	-	3,030,185	2,572,830
Public works	1,308,427	1,197,561	-	-	1,308,427	1,197,561
Culture and recreation	949,208	1,084,295	-	-	949,208	1,084,295
Water and Sewer	-	-	8,529,271	8,469,185	8,529,271	8,469,185
Airport	-	-	57,564	55,537	57,564	55,537
Total expenses	<u>6,199,258</u>	<u>5,691,690</u>	<u>8,586,835</u>	<u>8,524,722</u>	<u>14,786,093</u>	<u>14,216,412</u>
Increase (decrease) in net position before transfers	27,451	265,248	761,389	75,298	788,840	340,546
Transfers	<u>199,177</u>	<u>179,070</u>	<u>(199,177)</u>	<u>(179,070)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	226,628	444,318	562,212	(103,772)	788,840	340,546
Net position (beginning of year)	4,055,681	3,611,363	12,182,659	12,286,431	16,238,340	15,897,794
Net position (end of year)	<u>\$4,282,309</u>	<u>\$4,055,681</u>	<u>\$12,744,871</u>	<u>\$12,182,659</u>	<u>\$17,027,180</u>	<u>\$16,238,340</u>

Governmental Activities.

Revenues from governmental activities when compared to the prior year had an increase of \$269,771. Expenses in governmental activities increased \$507,568 from the prior year with the largest increase of \$457,355 in public safety offset by increases in other areas.

Business-type Activities.

Revenues from business-type activities increased \$748,204 from the prior year. Expenses increased \$62,113 from the prior year.

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 \$2,073,787. Approximately 89 percent of this total amount (\$1,839,613) 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.

Capital Assets.

Governmental capital assets decreased \$349,788 from 2019 due to increased depreciation. Business-type capital assets decreased \$571,536 due to increased depreciation. The table below presents the City's capital assets as of September 30, 2020, as well as the previous fiscal year-end.

CITY OF GATESVILLE'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 636,543	\$ 636,543	\$ 300,339	\$ 300,339	\$ 936,882	\$ 936,882
Buildings and improvements	3,268,188	3,268,188	55,404,252	55,414,408	58,672,440	58,682,596
Improvements other than buildings	4,613,134	4,537,634	-	-	4,613,134	4,537,634
Machinery and equipment	4,857,041	5,126,219	5,795,506	6,106,996	10,652,547	11,233,215
Construction in progress	48,716	30,353	1,502,327	459,578	1,551,043	489,931
Less accumulated depreciation	(6,819,702)	(6,654,229)	(38,031,925)	(36,739,286)	(44,851,627)	(43,393,515)
Total capital assets, net	<u>\$6,603,920</u>	<u>\$ 6,944,708</u>	<u>\$ 24,970,499</u>	<u>\$ 25,542,035</u>	<u>\$ 31,574,419</u>	<u>\$ 32,486,743</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt of \$31,079,855. Of this amount, \$11,792,991 represents debt backed by the full faith and credit of the City. \$6,645,000 utility refunding bonds and \$9,525,000 utility system revenue bonds secured by water and sewer revenues. Additional information on the city's long-term debt is found within the notes section of this report.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
General obligations	\$ 640,000	\$ 790,000	\$ 8,773,149	\$ 8,768,149	\$ 9,413,149	\$ 9,558,149
Note payable	447,696	552,614	819,915	872,910	1,267,611	1,425,524
Lease payable	982,612	1,034,167	129,619	137,963	1,112,231	1,172,130
Revenue bonds payable	-	-	9,525,000	10,000,000	9,525,000	10,000,000
Refunding bonds payable	-	-	6,645,000	4,705,000	6,645,000	4,705,000
Compensated absences	129,915	123,699	65,139	69,580	195,054	193,279
Net pension liability	1,655,762	2,643,908	801,029	1,262,202	2,456,791	3,906,110
Net OPEB obligation	307,926	377,439	157,093	210,803	465,019	588,242
Total debt	<u>\$4,163,911</u>	<u>\$5,521,827</u>	<u>\$26,915,944</u>	<u>\$26,026,607</u>	<u>\$31,079,855</u>	<u>\$31,548,434</u>

ECONOMIC FACTORS

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 continued growth over the next ten-to-twenty-year timeframe. As land prices 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 2.5 percent in FY 2020. 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.

A wholesale water rate study is currently in progress to ensure rates adequately fund infrastructure projects in the 5-year Capital Improvement Plan (CIP).

A total of 19,870 Army National Guard and U.S. Army Reserve Soldiers mobilized and demobilized at North Fort Hood in 2020 indicating the continuing strategic importance of North Fort Hood to the Army's mission. Currently there are five Military Construction projects totaling \$38.1 million 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 at North Fort Hood.

The City closely monitored the uncertainties of the impacts of COVID-19 during FY2020, but with infection rates in Gatesville lower than the state and national averages and a lack of reliance on travel/tourism, the City's economy weathered what could have had a major financial impact.

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 is expected to be completed by April 2021.

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.

THIS PAGE LEFT INTENTIONALLY BLANK

Basic Financial Statements

THIS PAGE LEFT INTENTIONALLY BLANK

Government-wide Financial Statements

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and investments	\$ 2,452,371	\$ 14,132,943	\$ 16,585,314
Receivables (net of allowance for uncollectibles)			
Taxes	42,982	-	42,982
Accounts	249,917	735,190	985,107
Internal balances	123,739	(123,739)	-
Capital assets:			
Land and improvements	636,543	300,339	936,882
Building and improvements	3,268,188	55,404,252	58,672,440
Improvements other than buildings	4,613,134	-	4,613,134
Machinery and equipment	4,857,041	5,795,506	10,652,547
Construction in progress	48,716	1,502,327	1,551,043
Less: accumulated depreciation	(6,819,702)	(38,031,925)	(44,851,627)
Total capital assets	<u>6,603,920</u>	<u>24,970,499</u>	<u>31,574,419</u>
 Total Assets	 <u>\$ 9,472,929</u>	 <u>\$ 39,714,893</u>	 <u>\$ 49,187,822</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding of debt	\$ -	\$ 519,576	\$ 519,576
Deferred outflows related to pensions	362,298	169,087	531,385
Deferred outflows related to other post-employment benefit obligations	<u>67,672</u>	<u>32,417</u>	<u>100,089</u>
Total Deferred Outflows of Resources	<u>\$ 429,970</u>	<u>\$ 721,080</u>	<u>\$ 1,151,050</u>
LIABILITIES			
Accounts payable	\$ 579,118	\$ 9,898	\$ 589,016
Customer deposits	-	284,623	284,623
Accrued interest	-	146,276	146,276
Deferred revenue	173,706	-	173,706
Noncurrent liabilities:			
Due within one year	626,162	1,560,472	2,186,634
Due in more than one year	1,574,060	24,397,350	25,971,410
Net pension liability (City's share)	1,655,762	801,029	2,456,791
Net other post-employment benefit obligations	307,926	157,093	465,019
 Total Liabilities	 <u>\$ 4,916,734</u>	 <u>\$ 27,356,741</u>	 <u>\$ 32,273,475</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	\$ 578,035	\$ 269,773	\$ 847,808
Deferred inflows related to OPEB	<u>125,821</u>	<u>64,588</u>	<u>190,409</u>
Total Deferred Outflows of Resources	<u>\$ 703,856</u>	<u>\$ 334,361</u>	<u>\$ 1,038,217</u>
NET POSITION			
Net investment in capital assets	\$ 4,533,612	\$ 7,946,748	\$ 12,480,360
Restricted for:			
Debt Service	167,319	2,024,778	2,192,097
Other	234,174	-	234,174
Unrestricted	<u>(652,796)</u>	<u>2,773,345</u>	<u>2,120,549</u>
 Total Net Position	 <u>\$ 4,282,309</u>	 <u>\$ 12,744,871</u>	 <u>\$ 17,027,180</u>

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

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

FUNCTION/PROGRAM ACTIVITY	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 911,438	\$ 50,262	\$ 316,385	\$ -
Public safety	3,030,185	158,681	-	-
Public works	1,273,778	-	-	-
Culture and recreation	949,208	104,028	-	-
Interest on long-term debt	34,649	-	-	-
Total governmental activities	6,199,258	312,971	316,385	-
Business-type Activities:				
Water and Sewer	8,529,271	9,107,991	-	-
Airport	57,564	149,041	-	-
Total business-type activities	8,586,835	9,257,032	-	-
Total primary government	\$ 14,786,093	\$ 9,570,003	\$ 316,385	\$ -
General revenues:				
Taxes:				
Property taxes				
Franchise fees				
Sales				
Occupancy				
Mixed Beverage				
Unrestricted investment income				
Unrestricted contributions and donations				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position – beginning				
Net position - ending				

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

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (544,791)	\$ -	\$ (544,791)
(2,871,504)	-	(2,871,504)
(1,273,778)	-	(1,273,778)
(845,180)	-	(845,180)
(34,649)	-	(34,649)
(5,569,902)	-	(5,569,902)
-	578,720	578,720
-	91,477	91,477
-	670,197	670,197
\$ (5,569,902)	\$ 670,197	\$ (4,899,705)
\$ 2,557,629	\$ -	\$ 2,557,629
378,414	-	378,414
2,283,134	-	2,283,134
113,545	-	113,545
13,261	-	13,261
10,952	91,192	102,144
27,038	-	27,038
213,380	-	213,380
199,177	(199,177)	-
5,796,530	(107,985)	5,688,545
226,628	562,212	788,840
4,055,681	12,182,659	16,238,340
\$ 4,282,309	\$ 12,744,871	\$ 17,027,180

THIS PAGE LEFT INTENTIONALLY BLANK

Fund Financial Statements

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,218,197	\$ 234,174	\$ 2,452,371
Receivables (net of allowance for uncollectibles):			
Taxes	42,982	-	42,982
Accounts	249,917	-	249,917
Due from other funds	123,739	-	123,739
	<u>\$ 2,634,835</u>	<u>\$ 234,174</u>	<u>\$ 2,869,009</u>
Total Assets			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 579,118	\$ -	\$ 579,118
Due to other funds	-	-	-
Deferred revenue	173,706	-	173,706
	<u>752,824</u>	<u>-</u>	<u>752,824</u>
Total Liabilities			
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	42,398	-	42,398
	<u>42,398</u>	<u>-</u>	<u>42,398</u>
Total deferred inflows of resources			
FUND BALANCES			
Restricted			
Other	-	234,174	234,174
Unassigned	1,839,613	-	1,839,613
	<u>1,839,613</u>	<u>234,174</u>	<u>2,073,787</u>
Total Fund Balances			
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,634,835</u>	<u>\$ 234,174</u>	<u>\$ 2,869,009</u>

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

THIS PAGE LEFT INTENTIONALLY BLANK

**CITY OF GATESVILLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

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

Total fund balance - governmental funds	\$ 2,073,787
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,603,920
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	42,398
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,438,264)
Fireman's Fund - Agency funds are included in government-wide financial statements but are not included in government fund financials, which increases net position	468
Net position of governmental activities	<u>\$ 4,282,309</u>

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

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes and special assessments:			
Property	\$ 2,437,638	\$ -	\$ 2,437,638
Other taxes and special assessments	2,674,810	113,545	2,788,355
Licenses and permits	50,262	-	50,262
Fines and forfeitures	158,681	-	158,681
Charges for services	104,028	-	104,028
Intergovernmental	316,385	-	316,385
Investment earnings	8,347	2,605	10,952
Contributions and donations	26,932	106	27,038
Miscellaneous	232,804	-	232,804
	<u>6,009,887</u>	<u>116,256</u>	<u>6,126,143</u>
EXPENDITURES			
Current:			
General government	701,234	-	701,234
Public safety	2,651,373	-	2,651,373
Public works	906,456	-	906,456
Culture and recreation	750,840	13,424	764,264
Debt service:			
Principal	432,112	-	432,112
Interest and fiscal charges	34,649	-	34,649
Capital outlay	646,508	-	646,508
	<u>6,123,172</u>	<u>13,424</u>	<u>6,136,596</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(113,285)</u>	<u>102,832</u>	<u>(10,453)</u>
OTHER FINANCING SOURCES (USES)			
Gain on sale of property	78,926	-	78,926
Transfers in	520,628	-	520,628
Transfers out	(221,604)	(101,182)	(322,786)
	<u>377,950</u>	<u>(101,182)</u>	<u>276,768</u>
Net Change in Fund Balances	264,665	1,650	266,315
Fund Balances – Beginning	<u>1,574,948</u>	<u>232,524</u>	<u>1,807,472</u>
Fund Balances - Ending	<u>\$ 1,839,613</u>	<u>\$ 234,174</u>	<u>\$ 2,073,787</u>

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

THIS PAGE LEFT INTENTIONALLY BLANK

**CITY OF GATESVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

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

Net change in fund balances - total governmental funds	\$ 266,315
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current period.	(338,790)
Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is the net decrease to net position of governmental funds.	(36,178)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	42,398
The issuance of long-term debt (e.g., bonds, leases) 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 debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	306,473
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(13,590)
Change in net position of governmental activities	<u>\$ 226,628</u>

CITY OF GATESVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and special assessments:				
Property	\$ 2,394,417	\$ 2,394,417	\$ 2,437,638	\$ 43,221
Other taxes and special assessments	2,511,050	2,511,050	2,674,810	163,760
Licenses and permits	31,200	31,200	50,262	19,062
Fines and forfeitures	151,500	151,500	158,681	7,181
Charges for services	164,250	164,250	104,028	(60,222)
Intergovernmental	-	-	316,385	316,385
Investment earnings	14,000	14,000	8,347	(5,653)
Contributions and donations	-	-	26,932	26,932
Miscellaneous	120,269	120,269	232,804	112,535
 Total Revenue	 <u>5,386,686</u>	 <u>5,386,686</u>	 <u>6,009,887</u>	 <u>623,201</u>
EXPENDITURES				
Current:				
General government:				
Administration	654,404	654,404	658,966	(4,562)
Planning	39,738	39,738	42,268	(2,530)
Public safety:				
Police	1,987,271	1,987,271	2,263,299	(276,028)
Courts	154,948	154,948	180,166	(25,218)
Fire	231,160	231,160	207,908	23,252
Public works:				
Streets	770,746	770,746	821,454	(50,708)
Utility building	84,820	84,820	85,002	(182)
Culture and recreation:				
Building and Grounds	227,531	227,531	166,614	60,917
Swimming pool	101,025	101,025	69,043	31,982
Library	247,174	247,174	220,993	26,181
Recreation	275,932	275,932	193,344	82,588
Civic center	128,230	128,230	100,846	27,384
Debt Service:				
Principal	256,276	256,276	432,112	(175,836)
Interest and fiscal charges	34,649	34,649	34,649	-
Capital outlay	691,683	691,683	646,508	45,175
 Total Expenditures	 <u>5,885,587</u>	 <u>5,885,587</u>	 <u>6,123,172</u>	 <u>(237,585)</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>\$ (498,901)</u>	 <u>\$ (498,901)</u>	 <u>\$ (113,285)</u>	 <u>\$ 385,616</u>

(Continued)

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

CITY OF GATESVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	-	-
Gain on sale of property	57,000	57,000	78,926	21,926
Transfers in	446,060	446,060	520,628	74,568
Transfers out	<u>(4,159)</u>	<u>(4,159)</u>	<u>(221,604)</u>	<u>(217,445)</u>
 Total Other Financing Sources (Uses)	 <u>498,901</u>	 <u>498,901</u>	 <u>377,950</u>	 <u>(120,951)</u>
 Net Change in Fund Balances	 -	 -	 264,665	 264,665
 Fund Balances – Beginning	 <u>1,574,948</u>	 <u>1,574,948</u>	 <u>1,574,948</u>	 <u>-</u>
 Fund Balances – Ending	 <u>\$ 1,574,948</u>	 <u>\$ 1,574,948</u>	 <u>\$ 1,839,613</u>	 <u>\$ 264,665</u>

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

CITY OF GATESVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and investments	\$ 14,036,724	\$ 96,219	\$ 14,132,943
Receivables (net of allowance for uncollectibles):			
Accounts	735,190	-	735,190
Total Current Assets	14,771,914	96,219	14,868,133
Capital Assets:			
Land and improvements	284,339	16,000	300,339
Construction in progress	1,502,327	-	1,502,327
Buildings and improvements	54,920,932	483,320	55,404,252
Machinery and equipment	5,795,506	-	5,795,506
Less accumulated depreciation	(37,856,271)	(175,654)	(38,031,925)
Total Capital Assets (Net of Depreciation)	24,646,833	323,666	24,970,499
Total Noncurrent Assets	24,646,833	323,666	24,970,499
Total Assets	\$ 39,418,748	\$ 419,885	\$ 39,838,632
Deferred Outflows of Resources:			
Deferred amount on refunding of debt	\$ 519,576	\$ -	\$ 519,576
Deferred outflows related to pensions	169,087	-	169,087
Deferred outflows related to other post-employment benefits obligations	32,417	-	32,417
Total Deferred Outflows of Resources	\$ 721,080	\$ -	\$ 721,080

(Continued)

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

CITY OF GATESVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2020

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 9,898	\$ -	\$ 9,898
Due to other funds	123,739	-	123,739
Accrued compensated absences	65,139	-	65,139
Refundable meter deposits	284,623	-	284,623
Accrued interest payable	146,276	-	146,276
Note payable - current	54,836	-	54,836
Lease payable - current	70,497	-	70,497
Revenue bonds - current	475,000	-	475,000
Refunding bonds - current	530,000	-	530,000
Certificates of obligation - current	365,000	-	365,000
Total Current Liabilities	2,125,008	-	2,125,008
Noncurrent Liabilities:			
Net pension liability	801,029	-	801,029
Net other post-employment supplemental death benefit obligation	83,021	-	83,021
Net other postemployment benefit obligation	74,072	-	74,072
Note payable (net of current portion)	765,079	-	765,079
Lease payable	59,122	-	59,122
Revenue bonds payable	9,050,000	-	9,050,000
Refunding bonds payable	6,115,000	-	6,115,000
Certificates of obligation	8,408,149	-	8,408,149
Total Noncurrent Liabilities	25,355,472	-	25,355,472
Total Liabilities	\$ 27,480,480	\$	\$ 27,480,480
Deferred Inflows of Resources:			
Deferred inflows related to pensions	\$ 269,773	\$ -	\$ 269,773
Deferred inflows related to other post-employment employment benefits	64,588	-	\$ 64,588
Total Deferred Inflows of Resources	\$ 334,361	\$ -	\$ 334,361
NET POSITION			
Net investment in capital assets	\$ 7,623,082	\$ 323,666	\$ 7,946,748
Restricted for debt service	2,024,778	-	2,024,778
Unrestricted	2,677,126	96,219	2,773,345
Total Net Position	\$ 12,324,986	\$ 419,885	\$ 12,744,871

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

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 8,686,294	\$ 28,500	\$ 8,714,794
Other	421,697	120,541	542,238
Total Operating Revenues	<u>9,107,991</u>	<u>149,041</u>	<u>9,257,032</u>
OPERATING EXPENSES			
Personnel services	2,085,766	-	2,085,766
Collection	418,025	-	418,025
Utilities	816,269	6,018	822,287
Repairs and maintenance	573,810	11,513	585,323
Materials and supplies	537,151	4,393	541,544
Cost of sales and services	1,731,680	11,409	1,743,089
Depreciation	1,670,178	24,230	1,694,408
Total Operating Expenses	<u>7,832,879</u>	<u>57,563</u>	<u>7,890,442</u>
Operating Income	<u>1,275,112</u>	<u>91,478</u>	<u>1,366,590</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	91,192	-	91,192
Interest expense	(688,256)	-	(688,256)
Bond issuance fee	-	-	-
Miscellaneous expense	(8,137)	-	(8,137)
Total Nonoperating Revenues (Expenses)	<u>(605,201)</u>	<u>-</u>	<u>(605,201)</u>
Income Before Transfers	669,911	91,478	761,389
Transfers In	682,235	-	682,235
Transfers Out	(803,308)	(78,104)	(881,412)
Change in Net Position	548,838	13,374	562,212
Net Position – Beginning (as restated see Note I.S.)	<u>11,776,148</u>	<u>406,511</u>	<u>12,182,659</u>
Net Position – Ending	<u>\$ 12,324,986</u>	<u>\$ 419,885</u>	<u>\$ 12,744,871</u>

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

CITY OF GATESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 9,272,383	\$ 149,041	\$ 9,421,424
Cash payments to suppliers	(5,244,071)	(33,333)	(5,277,404)
Cash payments to employees	(1,948,397)	-	(1,948,397)
Net Cash Provided By Operating Activities	<u>2,079,915</u>	<u>115,708</u>	<u>2,195,623</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	682,235	-	682,235
Transfers Out	(803,308)	(78,104)	(881,412)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(121,073)</u>	<u>(78,104)</u>	<u>(199,177)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(478,182)	(5,474)	(483,656)
Proceeds from issuance of debt	4,980,000	-	4,980,000
Principal Repayments	(3,562,995)	-	(3,562,995)
Interest paid on long-term debt	(688,256)	-	(688,256)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>250,567</u>	<u>(5,474)</u>	<u>245,093</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	91,912	-	91,912
Net Cash Provided (Used) By Investing Activities	<u>91,912</u>	<u>-</u>	<u>91,912</u>
Net Increase (Decrease) in Cash For The Year	2,301,321	32,130	2,333,451
Cash - Beginning	<u>11,735,403</u>	<u>64,089</u>	<u>11,799,492</u>
Cash - Ending	<u>\$ 14,036,724</u>	<u>\$ 96,219</u>	<u>\$ 14,132,943</u>

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

CITY OF GATESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income	\$ 1,275,112	\$ 91,478	\$ 1,366,590
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	1,670,178	24,230	1,694,408
Change in Assets and Liabilities:			
(Increase) Decrease in accounts receivable(net)	164,392	-	164,392
(Increase) Decrease in deferred amount on refunding of debt	21,118	-	21,118
(Increase) Decrease in deferred outflow in net pension obligation	(78,086)	-	(78,086)
(Increase) Decrease in deferred outflow in net other post- employment benefit obligation	(6,061)	-	(6,061)
Increase(Decrease) in accounts payable and accrued liabilities	(48,979)	-	(48,979)
Increase(Decrease) in interest payable	(1,752)	-	(1,752)
Increase (Decrease) in refundable meter deposits	9,467	-	9,467
Increase (Decrease) in due to other funds	(113,906)	-	(113,906)
Increase (Decrease) in compensated absences	(4,441)	-	(4,441)
(Increase) Decrease in deferred inflow in net pension obligation	(235,389)	-	(235,389)
(Increase) Decrease in deferred inflow in net other postemployment benefit	(56,855)	-	(56,855)
Increase (Decrease) in net pension obligation	(461,173)	-	(461,173)
Increase(Decrease) in net other postemployment benefit obligation	(53,710)	-	(53,710)
Total Adjustments	804,803	24,230	829,033
Net cash Provided By Operating Activities:	<u>\$ 2,079,915</u>	<u>\$ 115,708</u>	<u>\$ 2,195,623</u>

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

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 SEPTEMBER 30, 2020

	<u>Fireman's Fund</u>
ASSETS	
Cash	<u>\$ 468</u>
Total Assets	<u><u>\$ 468</u></u>
 LIABILITIES	
Due to beneficiaries	<u>\$ -</u>
Total Liabilities	<u>-</u>
 FUND BALANCES	
Restricted for:	
Other	<u>468</u>
Total Fund Balances	<u>468</u>
Total Liabilities and Fund Balances	<u><u>\$ 468</u></u>

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

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
AGENCY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Fireman's Fund
REVENUES	
Investment earnings	\$ -
Total Revenues	-
 EXPENDITURES	
Retirement payments	1,033
Miscellaneous	-
Total Expenditures	1,033
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,033)
 OTHER FINANCING SOURCES (USES)	
Transfers in	1,335
Total Other Financing Sources (Uses)	1,335
Net Change in Fund Balances	302
Fund Balances – Beginning	166
Fund Balances – Ending	\$ 468

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

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gatesville, Texas, 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 more significant of the government's accounting and reporting policies are described below.

A. 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. There are no component units that qualify for inclusion in the City's reporting entity.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Culture and Recreation, etc.) or segment are 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, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements. The major governmental funds are the general fund and the general restricted revenue fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major governmental funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

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 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 revenue available if collected within 60 days of the end of the current fiscal year. Grant revenues availability period is generally considered to be one year. 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, claims and judgments, are recorded only when the liability has matured and the payment is due.

Property taxes, franchise taxes, licenses and permits, charges for services, 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. All other revenue items are considered to be measurable and available in the fiscal period the City receives the cash.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 enterprise fund are charges to customers for sales and services. Operating expenses for enterprise 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 non-operating 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.

Governmental Funds:

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The city reports the following major governmental fund:

General Fund – is the primary operating fund of the City. It accounts for all financial resources, except those required to be accounted for in other funds.

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

Special Revenue Funds – account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fiduciary funds – Agency Funds account 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.

Proprietary Funds:

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability. The City reports the following major enterprise funds:

Utility 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 – accounts for hanger rentals and nominal expenses associated with operating the facilities.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, money market fund deposits, balances in public investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

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. A detail listing of authorized investments is included in Part IV, Note1 titled "Deposits and Investments."

Under GASB Statement No. 31, investments are reported at their fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term nonparticipating interest-earning investment contracts (to include certificates of deposit) are reported using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments that have a remaining term of one year or less from date of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The gain/loss resulting from valuation is reported within the revenue account "investment earnings" on the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, and the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds.

The City has implemented GASB Statement No. 40 entitled "Deposit and Investment Risk Disclosures". This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk as well as modifying custodial credit risk disclosures.

E. Receivables and Payables and Interfund Transactions

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.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Ad Valorem Taxes

The City levies property taxes as authorized under state law. The City reports tax revenue on the modified accrual basis, as described previously, net of allowance for uncollectible taxes. In addition, the City has entered into a contractual relationship with Coryell County, Texas, for the collections of all assess property taxes. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

G. Restricted Assets

Certain investments and cash accounts are classified as restricted on the balance sheet because their use is limited to servicing debt, repaying refundable deposits, public safety, culture and recreation, and specific construction projects.

H. Capital Assets

Capital assets (i.e. land, buildings, equipment, improvements other than buildings, which includes the City's infrastructure, and construction in progress) of all funds are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. 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 one year. 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.

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 reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	10-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years
Infrastructure	40 years

I. 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. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Typically, the General Fund has been used in prior years to liquidate such amounts in governmental funds.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 incurred are fully expensed in that reporting period.

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.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

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

M. Fund Balance Classifications

The difference between assets and liabilities in the governmental fund balance sheet shall be organized into the following classifications:

Nonspendable – Not in a spendable form, such as inventory, or required to be maintained intact such as the principal of a permanent fund. As of September 30, 2020, the City did not have any nonspendable fund balances.

Restricted – Resources that are subject to constraints that are either imposed by law through constitutional provisions or enabling legislation, or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. As of September 30, 2020, the City had restricted funds for economic development, public safety, debt service, capital projects, and culture and recreation.

Committed – Amounts that can only be used for specific purposes determined by formal approval of the Council. These amounts shall not be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it used to commit the amounts. As of September 30, 2020, the City did not have any committed fund balances.

Assigned – Amounts that the City intends to use for a specific purpose and are neither restricted nor committed. The intent to assign amounts for a specific purpose shall be expressed by the Council. As of September 30, 2020, the City did not have any assigned fund balances.

Unassigned – The residual classification for the general fund balance, including amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Use of Restricted, Committed, Assigned, and Unassigned Assets

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.

O. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements:

1. Statement No. 83, "Certain Asset Retirement Obligations." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2020.
2. Statement No. 84, "Fiduciary Activities." The requirements of this Statement will take effect for financial statements starting with fiscal year that ends December 31, 2020.
3. Statement No. 87, "Leases." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 15, 2022.
4. Statement No. 88, (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2020.
5. Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2021.
6. Statement No. 90, "Majority Equity Interests-an amendment of GASB Statement No. 14 and No. 61." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2020.

P. Pensions

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

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements includes (1) a deferred amount arising from the refunding of bonds, (2) a deferred outflow of resources for contributions made to the City's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the city's fiscal year, (3) a deferred outflow of resources related to other post-employment benefits (OPEB), and (4) a deferred outflows of resources related to the differences between the expected and actual demographics for the City's single-employer defined benefit fund. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amount related to the actuarial assumptions for demographic factors in the pension fund will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

R. Deferred Inflows of Resources

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's various statements of net position including (1) a deferred inflow for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense and deferred inflows related to other post-employment benefits (OPEB) and (2) a deferred inflow of unavailable revenue from uncollected property taxes. The deferred inflow for actual pension plan investment earnings is attributed to pension expense over a total of 5 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this (\$4,438,264) difference are as follows:

Note payable	\$ (447,696)
Bonds payable	(640,000)
Lease payable	(982,612)
Compensated absences	(129,915)
Net pension liability	(1,655,762)
Net deferred inflows related to pension	(274,353)
Net postemployment benefit obligation	<u>(307,926)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ (4,438,264)</u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$6,603,918 are as follows:

Land	\$ 636,543
Construction in progress	48,716
Buildings and improvements	7,881,322
Less: Accumulated depreciation	(3,756,913)
Machinery and equipment	4,857,041
Less: Accumulated depreciation	<u>(3,062,789)</u>
Net adjustment to increase fund balance - total government funds to arrive at net position - governmental activities	<u>\$ 6,603,920</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.” The details of this \$(338,790) difference are as follows:

Capital outlay	\$ 351,170
Depreciation expense	<u>(689,960)</u>
Net adjustment to decrease net changes in fund balances - Total governmental funds to arrive at changes in Net position of governmental activities	<u>\$ (338,790)</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (CONTINUED)**

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) 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 debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$306,473 difference are as follows:

Lease payable - current year issued	\$ (249,620)
Bond payable – principal repayments	150,000
Note payable – principal repayments	104,918
Lease payable – principal repayments	<u>301,175</u>
Net adjustment to increase total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 306,473</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this (\$13,590) difference are as follows:

Compensated absences	\$ (6,216)
OPEB expense	<u>(7,374)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (13,590)</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital project fund. The capital projects fund is budgeted in a multi-year manner. All annual appropriations lapse at fiscal year end.

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. The budget was approved September 24, 2019.

Excess of Expenditures over Appropriations

For the fiscal year ended September 30, 2020, the City of Gatesville's actual expenditures exceeded budget in the following accounts. Explanations of the variances are coded to the section of this note located below the table.

	<u>Appropriations</u>	<u>Excess of Expenditures Over Appropriations</u>
a. General Fund – General Govt - Admin	\$ 654,404	\$ 4,562
b. General Fund – General Govt - Planning	\$ 39,738	\$ 2,530
c. General Fund – Public Safety - Police	\$ 1,987,271	\$ 276,028
d. General Fund – Public Safety - Courts	\$ 154,948	\$ 25,218
e. General Fund – Public Works – Utility Bldg	\$ 84,820	\$ 182
f. General Fund – Debt Svc - Principal	\$ 256,276	\$ 175,836

- a. An unfavorable variance resulted from expenses related to unbudgeted projects.
- b. An unfavorable variance resulted from expense related to unbudgeted projects.
- c. An unfavorable variance resulted from unforeseen expenses.
- d. An unfavorable variance resulted from unforeseen expenses.
- e. An unfavorable variance resulted from unforeseen expenses.
- f. An unfavorable variance resulted from additional principal reported at year end.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Gatesville to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition, it includes an "investment strategy statement" that specifically addresses each fund's investment strategy and maximum maturity of each fund's individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. A certificate of deposit or share certificate that is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund through a depository institution that has its main office or a branch office in the State of Texas.
2. A certificate of deposit or share certificate that is invested through a broker that has its main office or branch office in the State of Texas, is on the list of broker/dealers adopted by the Council, and who utilizes a federally insured depository institution for the account of the City.
3. Interest bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund.
4. Interest bearing banking deposits, other than those listed above, which are invested through a broker or depository institution that has its main office or a branch office in the State of Texas.
5. Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) if the City Council by resolution authorized investment in that particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
6. Obligations, including letters of credit, of the United States or its agencies and instrumentalities including the Federal Home Loan Banks.
7. Direct obligations of the United States Government or the State of Texas or their respective agencies and instrumentalities, which have a final maturity date of two years or less from the date of purchase.
8. Obligations of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Tennessee Valley Authority (TVA), or the Federal Home Loan Mortgage Corporation (FHLMC), which have a final maturity date of two years or less from the date of purchase and do not exceed 50% of the portfolio.
9. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
10. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

Under the City investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, and any other investment instrument that is not specifically listed as an authorized investment.

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.

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, 2020.

At September 30, 2020, the carrying amount of the City's bank deposits was \$16,585,314, and the respective bank balances totaled \$16,583,681. Included in the balance is \$8,868,932 held in escrow by a third party. Of the remaining bank balances, \$250,000 was covered by federal depository insurance. Collateral for the bank balances over the federal depository insurance amount consisted of securities with a fair market value of \$9,300,000 at September 30, 2020.

Investments – 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. The following table includes the portfolio balances of all investment types of the City at September 30, 2020.

	Fair Value/Carrying Value			Weighted Average	Days to Maturity (1)
	Governmental Activities	Business-type Activities	Total	Cost	
Investments:					
Local government investment pools:					
TexPool Investment Pool	418,517	-	418,517	418,517	1
Total local government investment pools	418,517	-	418,517	418,517	

(1) Interest rate risk is estimated using weighted average days to maturity.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

As of September 30, 2020, the City of Gatesville's investments were rated by Standard & Poor's as follows:

	Average Credit Quality/ Ratings
TexPool Investment Pool	AAAm

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

Cash on hand	\$ 1,633
Carrying amount of deposits	16,165,164
Carrying amount of investments	418,517
Total Cash and Investments	\$ 16,585,314

2. Receivables

Receivables as of September 30, 2020, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectibles accounts, consist of the following:

	General	Water and Sewer	Airport	Total
Receivables:				
Account, net of allowance	\$249,917	\$735,190	\$ -	\$ 985,107
Taxes, net of allowance	42,982	-	-	42,982
	\$292,899	\$735,190	\$ -	\$1,028,089

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets

Capital asset activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 636,543	\$ -	\$ -	\$ -	\$ 636,543
Construction in progress	30,353	48,716	-	(30,353)	48,716
Total assets not being depreciated	<u>666,896</u>	<u>48,716</u>	<u>-</u>	<u>(30,353)</u>	<u>685,259</u>
Capital assets, being depreciated:					
Buildings and improvements	7,805,822	284,535	-	(209,035)	7,881,322
Machinery and equipment	5,126,219	493,874	(524,487)	(238,565)	4,857,041
Total capital assets being depreciated	<u>12,932,041</u>	<u>778,409</u>	<u>(524,487)</u>	<u>(447,600)</u>	<u>12,738,363</u>
Less accumulated depreciation:					
Buildings and improvements	3,457,846	299,067	-	-	3,756,913
Machinery and equipment	3,196,383	398,582	(524,487)	(7,689)	3,062,789
Total accumulated depreciation	<u>6,654,229</u>	<u>697,649</u>	<u>(524,487)</u>	<u>(7,689)</u>	<u>6,819,702</u>
Total capital assets being depreciated, net	<u>6,277,812</u>	<u>80,760</u>	<u>-</u>	<u>(439,911)</u>	<u>5,918,661</u>
Governmental activities capital assets, net	<u>\$ 6,944,708</u>	<u>\$ 129,476</u>	<u>\$ -</u>	<u>\$ (470,264)</u>	<u>\$ 6,603,920</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 300,339	\$ -	\$ -	\$ -	\$ 300,339
Construction in progress	459,578	1,048,223	-	(5,474)	1,502,327
Total assets not being depreciated	<u>759,917</u>	<u>1,048,223</u>	<u>-</u>	<u>(5,474)</u>	<u>1,802,666</u>
Capital assets, being depreciated:					
Buildings and improvements	55,414,408	312,636	(14,235)	(308,557)	55,404,252
Machinery and equipment	6,106,996	192,880	(387,534)	(116,836)	5,795,506
Total capital assets being depreciated	<u>61,521,404</u>	<u>505,516</u>	<u>(401,769)</u>	<u>(425,393)</u>	<u>61,199,758</u>
Less accumulated depreciation:					
Buildings and improvements	31,696,737	1,562,678	(1,445)	-	33,257,970
Machinery and equipment	5,042,549	124,041	(400,324)	7,689	4,773,955
Total accumulated depreciation	<u>36,739,286</u>	<u>1,686,719</u>	<u>(401,769)</u>	<u>7,689</u>	<u>38,031,925</u>
Total capital assets being depreciated, net	<u>24,782,118</u>	<u>(1,181,203)</u>	<u>-</u>	<u>(433,082)</u>	<u>23,167,833</u>
Business-type activities capital assets, net	<u>\$ 25,542,035</u>	<u>\$ (132,980)</u>	<u>\$ -</u>	<u>\$ (438,556)</u>	<u>\$ 24,970,499</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Cultural and recreation	\$ 129,114
Public safety	258,001
General government	(9,526)
Public works	<u>312,371</u>
Total depreciation expense – governmental activities	<u>\$ 689,960</u>
Business-type Activities:	
Water and sewer	\$ 1,670,178
Airport	<u>24,230</u>
Total depreciation expense – business-type activities	<u>\$ 1,694,408</u>

4. Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2020 consisted of the following:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	<u>\$ 123,739</u>
Total		<u>\$ 123,739</u>

Transfers between funds:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Proprietary Fund	\$ 197,842	
Non Major Government Fund	101,182	-
Agency Fund	-	1,335
Proprietary Fund		
General Fund	-	197,842
Non Major Government Fund		
General Fund	-	101,182
Agency Fund		
General Fund	1,335	-
	<u>\$ 300,359</u>	<u>\$ 300,359</u>

Eliminations

Interfund receivables, payables, and transfers are reported in the governmental and proprietary fund financial statements. In the entity-wide statements, interfund receivables, payables, and transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Agency Fund are for payments.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Leases

Noncancellable Operating Leases

Rental expenditures during the fiscal year ended September 30, 2020 including equipment rentals not covered under noncancelable leases were \$18,959.

Capital Leases

The City entered into an equity lease agreement as lessee for financing the acquisition of Enterprise FM Trust vehicles and equipment for the use of various city general and enterprise departments during fiscal years 2017 – 2020. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Assets:		
Machinery and Equipment	\$ 722,650	\$ --
Vehicles	687,891	362,967
Less: accumulated depreciation	(275,126)	(153,869)
Total:	\$1,135,415	\$ 209,098

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2020 were as follows:

Year Ending September 30,	Governmental	Business-type	Total
2021	\$322,818	\$ 73,704	\$ 396,522
2022	270,810	36,901	307,711
2023	238,480	16,251	254,731
2024	195,213	8,660	203,873
2025	--	--	--
Total minimum lease payments	1,027,321	135,516	1,162,837
Less: amount representing interest	(44,709)	(5,897)	(50,606)
Present value of minimum lease payments	\$ 982,612	\$129,619	\$ 1,112,231

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

6. Long-term Debt

At September 30, 2020, long-term debt of the City consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 790,000	\$ -	\$ (150,000)	\$ 640,000	\$ 155,000
Compensated absences	123,699	133,873	(127,657)	129,915	57,475
Note payable	552,614	-	(104,918)	447,696	104,918
Lease payable	1,034,167	249,620	(301,175)	982,612	308,769
Net pension liability	2,643,908	-	(988,146)	1,655,762	-
Net OPEB supplemental death benefit obligation	182,718	-	(11,392)	171,326	-
Net OPEB obligation	194,721	-	(58,121)	136,600	-
Total governmental activities	<u>\$ 5,521,827</u>	<u>\$ 383,493</u>	<u>\$ (1,741,409)</u>	<u>\$ 4,163,911</u>	<u>\$ 626,162</u>
Business-type activities:					
Certificates of obligations	\$ 8,775,000	\$ 2,570,000	\$ (2,565,000)	\$ 8,780,000	\$ 365,000
Discount	(6,851)	-	-	(6,851)	-
Revenue bonds	10,000,000	-	(475,000)	9,525,000	475,000
Refunding bonds	4,705,000	2,410,000	(470,000)	6,645,000	530,000
Compensated absences	69,580	68,893	(73,334)	65,139	65,139
Note payable	872,910	-	(52,995)	819,915	54,836
Lease payable	137,963	53,632	(61,976)	129,619	70,497
Net pension liability	1,262,202	-	(461,173)	801,029	-
Net OPEB supplemental death benefit obligation	88,337	-	(5,316)	83,021	-
Net OPEB obligation	122,466	-	(48,394)	74,072	-
Total business-type activities	<u>\$ 26,026,607</u>	<u>\$ 5,102,525</u>	<u>\$ (4,213,188)</u>	<u>\$ 26,915,944</u>	<u>\$ 1,560,472</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

Future governmental debt service requirements are as follows:

Year Ended September 30,	Governmental Activities					
	General Obligation Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 155,000	\$ 12,318	\$ 167,318	\$ 112,065	\$ 12,553	\$ 124,618
2022	160,000	8,870	168,870	113,036	9,843	122,879
2023	160,000	5,366	165,366	91,455	7,017	98,472
2024	165,000	1,807	166,807	91,617	4,148	95,765
2025	-	-	-	39,523	1,186	40,709
	-	-	-	-	-	-
	<u>\$ 640,000</u>	<u>\$ 28,360</u>	<u>\$ 668,360</u>	<u>\$ 447,696</u>	<u>\$ 34,747</u>	<u>\$ 482,443</u>

The General Obligation Refunding Bonds, Series 2014, were issued to make improvements to the streets and public works of the City. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (continued)

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2007, were issued to make improvements and extensions to Fort Hood. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance. This bond was repaid with funds from the General Obligation Refunding Bonds, Series 2020.

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2011, were issued to make improvements and extensions to the City's combined Waterworks and Sanitary Sewer System. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The General Obligation Refunding Bonds, Series 2017, were issued to be used to advance refund a portion of the City's outstanding Utility System Revenue Bonds, Taxable Series 2008. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal was \$4,975,000. The bonds bear interest between 1.75% and 4.25% payable in annual installments of \$65,000 to \$365,000 through September 1, 2036. As a result, the refunded revenue bonds are considered to be defeased and the liability has been removed from the long-term debt of the government-wide statement of activities. The reacquisition price exceeded the net carrying amount of the old debt by \$380,116. This amount is being netted against the new debt and amortized over the new debt's life. This difference, reported in the accompanying financial statements as a deduction from revenue bonds payable, is being charged to operations through the year 2036 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2020 is \$337,881.

The Utility System Revenue Bonds, Series 2019, were issued for the purpose of constructing, acquiring, purchasing, renovating, enlarging, equipping, and improving sewer system properties and facilities, including expansion of the Stillhouse Branch Wastewater Treatment Plant. The City agreed that the net revenues of the system, with the exception of those in excess of the amounts required for the payment and security of the bonds similarly secured, are hereby irrevocably pledged, equally and ratably, to the payment and security of the bonds and the additional bonds, if issued, including the establishment and maintenance of the special funds created and maintained for the payment and security thereof.

The Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020, were issued to pay contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City's combined utility system, including the purchase and installation of AMI Smart Water Meters; (2) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and, (3) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects.

The General Obligation Refunding Bonds, Series 2020, were issued to be used for the discharge and final payment of the Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2007, and payment of the costs of issuance of the bonds. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal was \$2,410,000. The bonds bear interest of 1.346% payable in annual installments of \$225,000 to \$330,000 through September 1, 2027. As a result, the refunded certificates of obligation are considered to be defeased and the liability has been removed from the long-term debt of the government-wide statement of activities. The reacquisition price exceeded the net carrying amount of the old debt by \$202,812. This amount is being netted against the new debt and amortized over the new debt's life. This difference, reported in the accompanying financial statements as a deduction from certificate of obligations bonds payable, is being charged to operations through the year 2027 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2020 is \$202,812.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (continued)

Future business-type debt service requirements are as follows:

Year Ended September 30	Business-type Activities								
	Certificates of Obligation and Refunding Bonds			Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 895,000	\$ 571,119	\$ 1,466,119	\$ 475,000	\$ 83,659	\$ 558,659	\$ 54,836	\$ 27,421	\$ 82,257
2022	920,000	541,762	1,461,762	475,000	82,899	557,899	56,741	25,516	82,257
2023	955,000	516,710	1,471,710	475,000	81,854	556,854	58,712	23,545	82,257
2024	985,000	489,772	1,474,772	475,000	80,382	555,382	60,752	21,505	82,257
2025	1,035,000	460,732	1,495,732	480,000	78,481	558,481	50,390	14,872	65,262
2026-2030	4,645,000	1,793,656	6,438,656	2,440,000	351,241	2,791,241	336,922	59,488	396,410
2031-2035	5,060,000	867,963	5,927,963	2,550,000	241,495	2,791,495	201,562	15,379	216,941
2036-2039	930,000	44,327	974,327	2,155,000	77,215	2,232,215	-	-	-
	<u>\$ 15,425,000</u>	<u>\$ 5,286,041</u>	<u>\$ 20,711,041</u>	<u>\$ 9,525,000</u>	<u>\$ 1,077,226</u>	<u>\$ 10,602,226</u>	<u>\$ 819,915</u>	<u>\$ 187,726</u>	<u>\$ 1,007,641</u>

7. Ad Valorem Taxes

Property taxes are assessed and collected by the Tax Appraisal District of Coryell County. The tax calendar is as follows:

Levy date: October 1 of the tax year

Due date: January 31 of year following the tax year, without penalty

Collection date: Beginning in October of the tax year

Lien date: January 1 of the tax year

The effective tax rate during fiscal year ended September 30, 2020, was \$0.56 per \$100 valuation.

8. Interest Expense

Interest expense during the year ended September 30, 2020, is as follows:

General Fund	\$ 34,649
Water and Sewer Fund	<u>688,256</u>
Total Interest Expense	<u>\$722,905</u>

Interest accrued in the Water and Sewer Fund at September 30, 2020 was \$146,276. Amortization of deferred amount on advance refunding of revenue bonds in the Water and Sewer Fund was \$21,117 for the year ended September 30, 2020.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

9. 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:

	<u>Water</u>	<u>Sewer</u>
Mountainview, Hilltop and Gatesville Units	\$2.30 per 1,000 Base charge: \$149.33	\$2.29 per 1,000 Base charge: \$300.72
Hughes Unit	#1 - \$2.30 per 1,000 Base charge: \$322.67	\$2.29 per 1,000 Base Charge: \$300.72
	#2 - \$2.30 per 1,000 Base charge: \$37.33	\$2.29 per 1,000 Base Charge: \$300.72
Woodman and Murry Units	#1 - \$2.30 per 1,000 Base charge: \$322.67	\$2.29 per 1,000 Base Charge: \$300.72
	#2 - \$2.30 per 1,000 Base charge: \$37.33	\$2.29 per 1,000 Base Charge: \$300.72

V. OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts: theft; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML for its general insurance coverage, real and personal property coverage, liability coverage, and workers compensation coverage. The agreement for formation for TML provides that TML will be self-sustaining through member premiums.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans

Texas Municipal Retirement System Plan

Plan Description

The City of Gatesville participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained from TMRS' website at www.TMRS.com. All eligible employees of the city are required to participate in TMRS.

Benefits Provided

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

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

Upon retirement, benefits depend upon the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At inception, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

Inactive employees or beneficiaries currently receiving benefits	54
Inactive employees entitled to but not yet receiving benefits	27
Active employees	80
Total	161

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.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Employees for the City of Gatesville were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Gatesville were 15.28% and 15.11% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$592,104, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population decline, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Forfeiture rates (withdrawal of member deposits from TMRS) for vested member vary by age and employer match. The withdrawal rates for cities with a 2-to-1 match are shown below. Forfeiture rates end at first eligibility for retirement.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	40.2%
30	40.2%
35	40.2%
40	37.0%
45	31.6%
50	26.1%
55	20.7%

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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	100.0%	

Discount Rate

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

Development of the Single Discount Rate	
Single Discount Rate	6.75%
Long-Term Expected Rate of Return	6.75%
Long-Term Municipal Bond Rate *	2.75%

* The rate is based on the Fidelity 20-Year Municipal GO AA Index daily rate closest to but not later than the Measurement Date.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Changes in the Net Pension Liability	Increase (Decrease)		Net Pension Liability (a)-(b)
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	
Balance at 12/31/2018	\$19,637,841	\$15,731,731	\$3,906,110
Changes for the year:			
Service cost	619,680	-	619,680
Interest	1,316,406	-	1,316,406
Change in current period benefit	-	-	-
Difference between expected and actual experience	(232,325)	-	(232,325)
Changes of assumptions	104,908	-	104,908
Contributions -- employer	-	572,510	(572,510)
Contributions -- employee	-	266,284	(266,284)
Net investment income	-	2,433,349	2,433,349
Benefit payments, including refunds of employee contributions	(890,753)	(890,753)	-
Administrative expense	-	(13,742)	13,742
Other changes	-	(413)	413
Net changes	917,916	2,367,235	(1,449,319)
Balance at 12/31/2019	<u>\$ 20,555,757</u>	<u>\$18,098,966</u>	<u>\$ 2,456,791</u>

Sensitivity of the net pension liability to changes in the discount rate:

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$5,388,832	\$2,456,791	\$60,160

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.tmr.com.

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

For the year ended the September 30, 2020, the recognized pension expense of \$524,908.

At September 30, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ --	\$ (298,961)
Changes in actuarial assumptions	81,439	--
Difference between projected and actual investment earnings	--	(548,847)
Contributions subsequent to the measurement date	449,946	--
Total	<u>\$ 531,385</u>	<u>\$ (847,808)</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

\$449,946 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2020	(251,638)
2021	(229,525)
2022	2,484
2023	(287,690)
2024	0
Thereafter	0
Total	(766,369)

3. Post Employment Benefits Other than Pension Benefits

Supplemental Death Benefits Fund

Plan Description

The City also participates in the Supplemental Death Benefits Fund (SDBF) which is a single-employer unfunded OPEB plan (and not a cost sharing plan) with benefit payments treated as being equal to the employer's yearly contributions for retirees. The SDBF 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 SDBF is administered through the Texas Municipal Retirement System. The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

The City 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 the employees' entire careers.

There is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

3. Post Employment Benefits Other than Pensions (continued)

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

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	8
Active employees	80
Total	123

Contributions

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.21%	0.06%
2018	0.23%	0.06%
2019	0.23%	0.05%
2020	0.23%	0.06%

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

Note 2: In order to determine the retiree portion of the City's Supplemental Death Plan contribution (that which is considered OPEB), the City should perform the following calculation:

$$\text{Total covered payroll} * \text{Retiree Portion of SDB Contribution (rate)}$$

Consideration should be given to the time period of contributions incurred (i.e., City's fiscal year vs. calendar year) to ensure the proper contribution rate is utilized in the above calculation.

Actuarial assumptions

The Total OPEB-SDB Liability (TOL) in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions.

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

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019. Note: The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

3. Post Employment Benefits Other than Pensions (continued)

Forfeiture rates (withdrawal of member deposits from TMRS) for vested member vary by age and employer match. The withdrawal rates for cities with a 2-to-1 match are shown below. Forfeiture rates end at first eligibility for retirement.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	40.2%
30	40.2%
35	40.2%
40	37.0%
45	31.6%
50	26.1%
55	20.7%

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

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City's total OPEB-SDB liability	\$303,711	\$254,347	\$215,061

At September 30, 2020, the OPEB-SDB expense and liability is as follows:

	OPEB-SDB Expense
Changes for the year:	
Service cost	\$ 9,891
Interest	10,204
Changes in benefit terms	--
Employer administrative costs	--
Recognition of deferred outflows/inflows of resources:	
Difference between expected and actual experience	(2,907)
Changes in assumption or other inputs	7,200
Total OPEB-SDB expense	<u>\$ 24,388</u>

Changes in the Total OPEB-SDB Liability	Net OPEB Liability (a)-(b)
Balance at 12/31/2018	\$271,055
Changes for the year:	
Service cost	9,891
Interest	10,204
Change in benefit terms	-
Difference between expected and actual experience	(74,505)
Changes of assumptions	39,604
Benefit payments	(1,902)
Net changes	<u>(16,708)</u>
Balance at 12/31/2019	<u>\$254,347</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

3. Post Employment Benefits Other than Pensions (continued)

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

For the year ended the September 30, 2020, the recognized OPEB-SDB expense of \$24,388.

At September 30, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to OPEB-SDB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ 41,358	\$ (61,295)
Changes in actuarial assumptions and other inputs	41,108	(9,353)
Net difference between projected and actual investments	--	--
Contributions subsequent to the measurement date	385	--
Total (excluding contributions subsequent to measurement date)	<u>\$ 82,851</u>	<u>\$ (70,648)</u>

\$385 reported as deferred inflows of resources related to OPEB-SDB resulting from contributions subsequent to the measurement date will be recognized as an increase of the OPEB-SDB for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in OPEB-SDB expense as follows:

Year ended December 31:	
2020	4,293
2021	4,293
2022	4,266
2023	1,690
2024	(3,961)
Thereafter	0
Total	10,581

V. OTHER INFORMATION (CONTINUED)

3. Post Employment Benefits Other than Pension Benefits

Other Post-Employment Benefit (OPEB) Plan

Plan Description

In addition to the pension benefits described in Note V.2. 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. The full cost of the coverage is paid by the retiree, with the rates being the same as an active employee.

At the September 30, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Plan Members/Beneficiaries Currently Receiving Benefits	1
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members	77
Total	78

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (continued)

Contributions

The full monthly premium rates for retirees as of October 1, 2019 for each plan are shown below.

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 other post-employment (OPEB) liability in September 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Discount rate*	2.75% per annum
Salary Increase Rate	3.5%
Inflation Rate	3.0% per annum
Amortization Method	Experience/Assumptions gains and losses are amortized over a closed period of 10.7 years starting on October 1, 2019, equal to the average remaining service of active and inactive plan members (who have no future service).
Mortality Rates	RP-2014 generational table scaled using MP-19 and applied on a gender-specific basis.

* Source: Bond Buyer 20-Bond GO index

**Changes include updating the mortality to be a generational table with updated projection scales released by the SOA, an interest rate using 20 year bond rates and a change in Actuarial Cost methodology to the Entry Age Normal (EAN) method per GASB 75.

Forfeiture rates, the rate of withdrawal is based on the withdrawal assumption used in the 2016 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						
Age	Male			Female		
	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%

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

4. Postemployment Benefits Other than Pensions (continued)

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

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City's total OPEB liability	\$231,275	\$210,672	\$192,164

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

The following presents the post-employment benefit (OPEB) liability of the City, 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:

Trend	Net OPEB Liability	% Difference
1% Decrease	\$187,039	-11%
Current Trend	\$210,672	N/A
1% Increase	\$239,190	14%

At September 30, 2020, the OPEB expense and liability is as follows:

	Total OPEB Expense
Changes for the year:	
Service cost	\$15,797
Interest cost	11,893
Change in current period benefit terms	--
OPEB plan Administrative expense	--
Current Recognized deferred outflows/(inflows):	
Recognition of current year outflow (inflow) due to liabilities	(15,836)
Amortization of prior year outflow (inflow) due to liabilities	469
Total OPEB Expense	\$ 12,323

Changes in the Total OPEB Liability	Net OPEB Liability
Balance at 9/30/2018	\$317,187
Changes for the year:	
Service cost	15,797
Interest	11,893
Change in benefit terms	-
Difference between expected and actual experience	(97,835)
Changes of assumptions	(27,351)
Benefit payments	(9,019)
Net changes	(106,515)
Balance at 9/30/2019	\$210,672

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2020

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (continued)

Total post-employment benefit OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to post-employment benefit (OPEB)

For the year ended the September 30, 2020, the recognized post-employment benefit OPEB expense of \$12,323.

At September 30, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to total OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 1,126	\$ (85,459)
Changes in assumptions and other inputs	10,552	(34,302)
Contributions subsequent to the measurement date	5,560	--
Total	\$ 17,238	\$ (119,761)

\$5,560 deferred outflows of resources related to total OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2021	(15,367)
2022	(15,367)
2023	(15,367)
2024	(15,367)
2025	(15,367)
Thereafter	(31,440)
	(108,275)

V. OTHER INFORMATION (CONTINUED)

4. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, 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.

Required Supplementary Information

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30 2020
(UNAUDITED)

	2019	2018	2017	2016	2015	2014
Total pension liability						
Service Cost	\$ 619,680	\$ 603,610	\$ 594,731	\$ 574,521	\$ 578,197	\$ 506,716
Interest (on the Total Pension Liability)	1,316,406	1,256,097	1,196,570	1,130,444	1,115,252	1,029,818
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	(232,325)	(92,837)	(150,538)	(92,529)	(214,116)	264,700
Change of assumptions	104,908	-	-	-	16,497	-
Benefit payments, including refunds of employee contributions	<u>(890,753)</u>	<u>(872,133)</u>	<u>(654,499)</u>	<u>(631,309)</u>	<u>(726,384)</u>	<u>(506,596)</u>
Net Change in Total Pension Liability	917,916	\$ 894,737	\$ 986,264	\$ 981,127	\$ 769,446	\$ 1,294,638
Total Pension Liability - Beginning	<u>19,637,841</u>	<u>18,743,104</u>	<u>17,756,840</u>	<u>16,775,713</u>	<u>16,006,267</u>	<u>14,711,629</u>
Total Pension Liability - Ending (a)	<u>\$ 20,555,757</u>	<u>\$ 19,637,841</u>	<u>\$ 18,743,104</u>	<u>\$ 17,756,840</u>	<u>\$ 16,775,713</u>	<u>\$ 16,006,267</u>
Plan fiduciary Net Position						
Contributions - Employer	\$ 572,510	\$ 564,950	\$ 549,367	\$ 551,291	\$ 548,786	\$ 527,696
Contributions - Employee	266,284	255,303	250,037	242,706	245,328	236,938
Net Investment Income	2,433,349	(487,950)	1,966,183	888,332	19,281	693,519
Benefit payments, including refunds of employee contributions	(890,753)	(872,133)	(654,499)	(631,309)	(726,384)	(506,596)
Administrative Expense	(13,742)	(9,426)	(10,186)	(10,030)	(11,743)	(7,240)
Other	<u>(413)</u>	<u>(492)</u>	<u>(515)</u>	<u>(540)</u>	<u>(579)</u>	<u>(595)</u>
Net Change in Plan Fiduciary Net Position	2,367,235	\$ (549,748)	\$ 2,100,387	\$ 1,040,450	\$ 74,689	\$ 943,722
Plan Fiduciary Net Position - Beginning	<u>15,731,731</u>	<u>16,281,479</u>	<u>14,181,092</u>	<u>13,140,642</u>	<u>13,065,953</u>	<u>12,122,231</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 18,098,966</u>	<u>\$ 15,731,731</u>	<u>\$ 16,281,479</u>	<u>\$ 14,181,092</u>	<u>\$ 13,140,642</u>	<u>\$ 13,065,953</u>
Net Pension Liability - Ending (a) - (b)	2,456,791	\$ 3,906,110	\$ 2,461,625	\$ 3,575,748	\$ 3,635,071	\$ 2,940,314
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.05%	80.11%	86.87%	79.86%	78.33%	81.63%
Covered Employee Payroll	\$ 3,804,052	\$ 3,647,188	\$ 3,571,960	\$ 3,467,235	\$ 3,485,215	\$ 3,384,835
Net Pension Liability as a Percentage of Covered Employee Payroll	64.58%	107.10%	68.92%	103.13%	104.30%	86.87%

**CITY OF GATESVILLE
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS (will ultimately be displayed)
SEPTEMBER 30, 2020**

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Actuarially Determined Contribution	\$ 592,104	\$ 567,742	\$ 558,291	\$ 548,748	\$ 570,438	\$ 547,508
Contributions in relation to the actuarially determined contribution	<u>592,104</u>	<u>567,742</u>	<u>558,291</u>	<u>548,748</u>	<u>570,438</u>	<u>547,508</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,968,401	\$ 3,746,440	\$ 3,610,241	\$ 3,540,264	\$ 3,602,812	\$ 3,317,279
Contributions as a percentage of covered employee payroll	14.92%	15.15%	15.46%	15.50%	15.83%	16.50%

* The amounts presented above are as of the City's most recent fiscal year end.

**NOTES TO SCHEDULE OF CHANGES IN NET POSITION LIABILITY
AND RELATED RATIOS AND SCHEDULE OF CONTRIBUTIONS**

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 year smoothed marked; 12% soft corridor
Inflation	2.50%
Salary Increases	3.5% 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: 2015 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.

CITY OF GATESVILLE
SCHEDULE OF CHANGES IN OPEB-SDB LIABILITY AND RELATED RATIOS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30 2020

	2019	2018	2017
Supplemental Death Benefit (OPEB-SDB) Liability			
Service Cost	\$ 9,891	\$ 11,306	\$ 9,644
Interest (on the Total OPEB-SDB Liability)	10,204	7,011	6,862
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(74,505)	61,714	-
Change of assumptions or other inputs	39,604	(14,041)	15,105
Benefit payments	(1,902)	(2,188)	(2,143)
Net Change in Total OPEB-SDB Liability	\$ (16,708)	\$ 63,802	\$ 29,468
Total OPEB-SDB Liability - Beginning	271,055	207,253	177,785
Total OPEB-SDB Liability - Ending	<u>\$ 254,347</u>	<u>\$ 271,055</u>	<u>\$ 207,253</u>
Covered Employee Payroll	\$ 3,804,052	\$ 3,647,188	\$ 3,571,960
OPEB-SDB Liability as a Percentage of Covered Employee Payroll	6.69%	7.43%	5.80%

Note: The amounts above are as of the measurement date of the collective supplemental death benefit OPEB liability.

* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Schedule of Contributions - (Retiree-only portion of the rate, for OPEB):

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.21%	0.06%
2018	0.23%	0.06%
2019	0.23%	0.05%
2020	0.23%	0.06%

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

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

Consideration should be given to the time period of contribution incurred (i.e., City's fiscal year vs. Calendar year) to ensure the proper contribution rate is utilized in the above calculation.

**CITY OF GATESVILLE
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30, 2020**

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Actuarially Determined Contribution ^f	\$ 2,381	\$ 1,962	\$ 2,166
Contributions in relation to the actuarially determined contribution	<u>2,381</u>	<u>1,962</u>	<u>2,166</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,968,401	\$ 3,746,440	\$ 3,610,241
Contributions as a percentage of covered employee payroll	0.06%	0.05%	0.06%

* The amounts presented above are as of the City's most recent fiscal year end.

**NOTES TO SCHEDULE OF CHANGES IN OTHER POST-EMPLOYMENT (OPEB) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF CONTRIBUTIONS - SUPPLEMENTAL DEATH**

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.5% per year
Salary Increases	3.5% to 11.5% including inflation
Discount rate *	2.75%
Retirees' share of benefit-related costs	\$ -
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

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

CITY OF GATESVILLE
SCHEDULE OF CHANGES IN OTHER POST-EMPLOYMENT BENEFIT (OPEB) LIABILITY
AND RELATED RATIOS - HEALTH BENEFITS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30 2020

	2020	2019	2018
Post-Employment Benefit (OPEB) Liability			
Service Cost	\$ 15,797	\$ 14,934	\$ 13,022
Interest cost	11,893	10,445	10,721
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(97,835)	1,224	-
Change of assumptions	(27,351)	(13,651)	16,384
Benefit payments	(9,019)	(7,685)	(6,160)
Net Change in Total OPEB Liability	\$ (106,515)	\$ 5,267	\$ 33,967
Total OPEB Liability - Beginning	317,187	311,920	277,953
Total OPEB Liability - Ending	<u>\$ 210,672</u>	<u>\$ 317,187</u>	<u>\$ 311,920</u>
Covered Employee Payroll	\$ 4,052,108	\$ 3,169,511	\$ 3,494,591
OPEB Liability as a Percentage of Covered Employee Payroll	5.20%	10.01%	8.93%

Note: The amounts above are based on September 30, 2020 measurement date.

Schedule of Contributions

Current Premium Rates:

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

Retiree Contributions

All employees are required to contribute the full premium in order to continue coverage at retirement.

**CITY OF GATESVILLE
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30, 2020**

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Legally required contributions	\$ 19,109	\$ 20,170	\$ 16,167
Actual contributions	19,109	20,170	16,167
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,968,401	\$ 3,746,440	\$ 3,610,241
Contributions as a percentage of covered employee payroll	0.48%	0.54%	0.45%

* The amounts presented above are as of the City's most recent fiscal year end.

**NOTES TO SCHEDULE OF CHANGES IN OTHER POST-EMPLOYMENT (OPEB) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF CONTRIBUTIONS**

Methods and Assumption Used to Determine Contribution Rates:

Valuation Date:	December 31, 2019
Discount rate *	2.75%
Salary Increases	3.50%
Medical Consumer Price index Trend	3.0% per annum
Inflation Rate	2.50% per annum
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)
Actuarial Cost Method	Entry age normal based on level percentages of projected salary.
Amortization Method	Experience/Assumptions gains and losses are amortized over a closed period of 10.7 years starting on October 1, 2019, equal to the average remaining service of active and inactive plan members (who have no future service).
Plan Participation Percentage	The participation percentage is the assumed rate of future eligible retirees who elect to continue health coverage at retirement. It is assumed that 36% of all employees and their dependents who are eligible for early retiree benefits will participate in the retiree medical plan. This assumes that a one-time irrevocable election to participate is made at retirement.
Mortality Rates	RP-2014 generational table scaled using MP-2019

* Source: Bond Buyer 20-Bond GO Index

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

Combining Fund Statements

THIS PAGE LEFT INTENTIONALLY BLANK

Combining Financial Statements
Nonmajor Governmental Funds

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	<u>Special Revenue</u>	Total Nonmajor Governmental Funds
	<u>Motel/Hotel Occupancy Tax</u>	<u>Funds</u>
ASSETS		
Cash and investments	\$ 234,174	\$ 234,174
Total Assets	<u>\$ 234,174</u>	<u>\$ 234,174</u>
LIABILITIES		
Due to other funds	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>
FUND BALANCES		
Restricted for:		
Other	<u>234,174</u>	<u>234,174</u>
Total Fund Balances	<u>234,174</u>	<u>234,174</u>
Total Liabilities and Fund Balances	<u>\$ 234,174</u>	<u>\$ 234,174</u>

THIS PAGE LEFT INTENTIONALLY BLANK

CITY OF GATESVILLE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Motel/Hotel Occupancy Tax</u>	
REVENUES		
Occupancy taxes	\$ 113,545	\$ 113,545
Investments	2,605	2,605
Contributions and donations	106	106
	<u>116,256</u>	<u>116,256</u>
EXPENDITURES		
Culture and recreation	13,424	13,424
	<u>13,424</u>	<u>13,424</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>102,832</u>	<u>102,832</u>
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	(101,182)	(101,182)
	<u>(101,182)</u>	<u>(101,182)</u>
NET CHANGE IN FUND BALANCES	1,650	1,650
FUND BALANCES , BEGINNING	<u>232,524</u>	<u>232,524</u>
FUND BALANCES, ENDING	<u>\$ 234,174</u>	<u>\$ 234,174</u>

THIS PAGE LEFT INTENTIONALLY BLANK

OTHER SCHEDULES

CITY OF GATESVILLE, TEXAS

SCHEDULE OF INSURANCE COVERAGE

SEPTEMBER 30, 2020

(UNAUDITED)

<u>NAME OF INSURER</u>	<u>CONTRACT NUMBER</u>	<u>LIMITS</u>	<u>COVERAGE</u>	<u>EXP. DATE</u>
Texas Municipal League	2180	\$3,000,000/ occurrence \$500/deductible occurrence	Auto Liability	10/1/2020
Texas Municipal League	2180	\$1,000,000/ occurrence/ \$2,000,000/ annual aggregate \$0 deductible/ occurrence/	General Liability	10/1/2020
Texas Municipal League	2180	\$5,000,000 each claim/\$10,000,000 annual aggregate/ \$5,000 deductible occurrence	Public officials and employee liability errors and omissions	10/1/2020
Texas Municipal League	2180	\$3,000,000 each occurrence/ \$6,000,000 annual aggregate/\$5,000 deductible	Law enforcement liability	10/1/2020

(continued)

CITY OF GATESVILLE, TEXAS

SCHEDULE OF INSURANCE COVERAGE

(Continued)

SEPTEMBER 30, 2020

(UNAUDITED)

<u>NAME OF INSURER</u>	<u>CONTRACT NUMBER</u>	<u>LIMITS</u>	<u>COVERAGE</u>	<u>EXP. DATE</u>
Texas Municipal League	2180	\$500/deductible per vehicle/ \$10,000 per occurrence/limit varies-dependent on carrying value	Auto physical damage	10/1/2020
Texas Municipal League	2180	\$2,000,000/aggregate \$0 deductible	General Liability hazards	10/1/2020
Texas Municipal League	2180	\$5,000,000/occurrence \$0 deductible	Chartered non-owned aircraft liability	10/1/2020
Texas Municipal League	2180	\$33,085,180 coverage limit/ \$2,500 deductible \$1,000,000 transit limit	Real and personal property	10/1/2020
Texas Municipal League	2180	\$1,718,805 coverage limit/\$2,500 deductible	Mobile equipment	10/1/2020
Texas Municipal League	2180	\$2,600,000 coverage limit/ \$2,500 deductible	Boiler and machinery	10/1/2020

THIS PAGE LEFT INTENTIONALLY BLANK



Lott, Vernon & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Ronald E. Stepp, CPA
Jerry D. Tyroch Jr., CPA
Dane Legg, CPA
Deborah K. Hershberger, CPA

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

To the Honorable Mayor and
Members of the City Council
City of 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 City of Gatesville, Texas as and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of Gatesville, Texas' basic financial statements, and have issued our report thereon dated February 15, 2021.

Internal Control Over Financial Reporting

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

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

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

lottvernon⁷⁰cpa.com

109 East Avenue B • P.O. Box 935 • Killeen, Texas 76540-0935

Off: 254-526-0571 • Fax: 254-526-7667

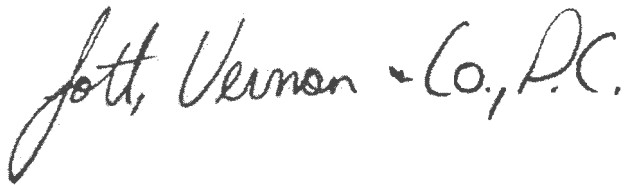
MEMBER OF AMERICAN INSTITUTE & TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Lott, Vernon & Co., P.C." in a cursive script.

Lott, Vernon & Company P.C.
Killeen, Texas
February 15, 2021