

CITY OF COMMERCE, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2020

**City of Commerce, Texas
Annual Financial Report
Year Ended September 30, 2020**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	3
<u>Required Supplementary Information</u>	
Management's Discussion and Analysis.....	7
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position.....	18
Statement of Activities.....	19
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Fund Net Position - Proprietary Funds.....	23
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds.....	24
Statement of Cash Flows - Proprietary Funds.....	25
Notes to Financial Statements.....	26
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule - General Fund.....	53
Schedule of Changes in Net Pension Liability and Related Ratios	54
Schedule of Pension Contributions.....	55
Schedule of Changes in Total OPEB Liability and Related Ratios	56
<u>Combining Non-Major Governmental Fund Financial Statements</u>	
Combining Balance Sheet – Other Governmental Funds.....	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Other Governmental Funds.....	59
<u>Supplementary Schedules (unaudited)</u>	
Historical Schedule of Taxable Property Valuation.....	61
Schedule of Delinquent Taxes Receivable.....	62
Budgetary Comparison Schedule – Debt Service Fund.....	63

FINANCIAL SECTION

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Independent Auditor's Report

To the City Council
City of Commerce, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Commerce, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Commerce, Texas' 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Commerce, 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; budgetary comparison information; schedule of changes in net pension liability and related ratios; schedule of pension contributions; and the schedule of changes in total OPEB liability and related ratios on pages 7 through 16 and 53 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Commerce, Texas' basic financial statements. The combining nonmajor fund financial statements and supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary 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 any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2021, on our consideration of the City of Commerce, 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 Commerce, 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 the City of Commerce, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Scott, Singleton, Fincher and Company, PC

Scott, Singleton, Fincher and Company, PC
Certified Public Accountants
Greenville, Texas

April 20, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

Management of the City of Commerce presents the City's financial statements. This overview is an analysis of the financial activities of the City for the fiscal year ended September 30, 2020. This discussion should be read in conjunction with the financial statements and related notes.

FINANCIAL HIGHLIGHTS:

- Government-wide net position reported in the Statement of Net Position is \$18,945,169. Of this amount, \$15,611,606 is invested in capital assets or restricted for debt service and capital projects, and the balance of \$3,333,563 is unrestricted net position.
- Government-wide net position decreased by \$142,926.
- Each of the City's fund financial statements reported changes in equity as follows:

General Fund – \$348,993 increase

Debt Service Fund – (\$1,065) decrease

Other Governmental Funds – \$695,218 increase

Water, Sewer, & Environmental Waste Services Fund – (\$1,017,043) decrease

Water District Fund – \$161 increase

Internal Service Fund – (\$46,096) decrease

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and appropriations from the State. Proprietary fund statements offer short and long term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provides one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Non-financial factors should also be considered to fully assess the overall health of the City, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – Most of the City's services are reported here, including, administration, judicial, fire and emergency services, community development, public works, police, parks and recreation, library, and airport activities. Property taxes and state and federal grants finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations and sanitation services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary - use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash), and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found at the bottom or adjacent to each of the governmental fund financial statements.

Proprietary Funds – The Proprietary Funds are used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Net position serves as one useful indicator of a government's financial position. In the case of the City, the combined net position exceeded liabilities by \$18,945,169 and \$19,088,095 at the close of FY 2020 and FY 2019, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

The combined net position of the City's activities decreased by \$142,926. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$3,333,563.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, the City's funds reported fund balance and net position of \$3,119,992 and proprietary funds \$10,351,931 for a reported combined fund balance and net position of \$13,471,923, a \$25,764 increase from last year.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's investment in capital assets reported in governmental activities and business-type activities was \$14,596,636 and \$15,553,882, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was a \$376,533 decrease and a \$968,753 decrease in each of the respective activities. Additional information on capital asset activity can be found in note 5 to the financial statements.

Long-term Debt – at year-end the City had \$15,661,584 in bonds and capital leases outstanding – a decrease of \$996,228. Additional information on long-term liabilities can be found in note 6 to the financial statements.

ECONOMIC CONDITIONS AND OUTLOOK:

The City's local economy continues to be vibrant in the face of the COVID-19 pandemic. While there have been local businesses that have been negatively impacted by COVID, the underlying fundamentals remain strong for our community. These fundamentals include Texas A&M University-Commerce, industrial & manufacturing growth, agricultural resilience, local retail sales sustainability, and growth in residential housing construction:

- Texas A&M University – Commerce: While enrollment in on-campus learning has been down due to COVID restrictions, the University maintained a strong total enrollment by adding remote learning and online course offerings. TAMU-C remains an integral part of the Texas A&M system and the State's educational strategies moving forward. University leadership continues to actively pursue their growth plan and strategic objectives. More information can be found on their website at new.tamuc.edu.
- The City's Economic Development Corporation has seen success in working with numerous local industrial & manufacturing companies that have been able to move forward in spite of the COVID challenges. Additionally, the EDC has been in negotiations with a couple of exciting new opportunities to bring employers into the community.
- Commerce continues to see growth and benefit from the resilience of the agricultural land and businesses within and around the City. A major local provider, Fix & Feed, began an expansion of their business location and service offerings in response to the agricultural market and construction supplies. Commerce was also able to secure an economic deal to bring a new Tractor Supply to the community as well.

- Even in the face of national pandemic, retail sales in the community are remaining steady. FY 2020 sales tax revenues totaled \$1,717,543 a 9% increase from the previous year. Current year figures are on track to match if not exceed this amount. New retail stores are scheduled to start construction in the coming year.
- Building permits during 2020 showed residential construction totaling approximately \$3,135,835.

MAJOR INITIATIVES:

Recently completed projects:

- City-wide street survey and analysis to be used for future projects and maintenance plans for \$30,000 funded with local funds. This will be used in the aid of completing a new strategic plan.
- CARES Funding provided by the federal government related to assistance to local governments to help mitigate and slow the spread of the Covid-19 virus. The city received 20% of the allotted funds in FY2020 in the amount \$107,646. These funds were utilized towards public safety equipment and materials.
- Issuance of new Certificates of Obligation in March 2021 in the amount of \$2.615,000 to aid in street improvements, public safety equipment purchases, water treatment and wastewater treatment infrastructure improvements.

Funded and underway:

- Three pumps at the Wastewater Treatment Plant will be replaced utilizing remaining funds from a 0% loan from Texas Water Distribution Board for Clean water improvements and new debt issued in FY 2021.
- Motor Control Center at Raw Water Pump Stations \$450,000 partially funded by saving on 0% loan from Texas Water Distribution Board for Drinking water improvements.
- Extension of Airport Taxiway utilizing a grant in the amount of \$829,000 from TxDOT and local funds.
- Neighborhood Empowerment Zone established in City Limits, to give incentives to homeowners and builders to build and improve homes within this area.
- Home Grant Program for local homeowners and builders to repair or build structures using federal funds.
- Replacement or repair of existing fuel tank at the Airport utilizing grant funds and local match has begun the design phase.
- CARES Funding provided by the federal government related to assistance to local governments to help mitigate and slow the spread of the Covid-19 virus. The city has utilized the remaining 80% of the allotted funds in FY 2021 in the amount \$430,584. These funds were utilized towards public safety equipment and materials, medical equipment, facilitating telecommuting and payroll for public safety staff during the pandemic.

Funded and expected to begin in near future:

- Necessary repairs the water treatment plant to restore ability of the plant to treat and distribute water at the intended rate of 3Mil gallons a day.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please do not hesitate to contact the City Manager or the Director of Finance by phone at (903) 886-1131 or by E-mail at Howdee.Lisenbee@commercetx.org or Jamie.Campbell@commercetx.org.

City of Commerce, Texas
Comparative Statements of Net Position
September 30, 2020 and 2019

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
ASSETS						
Current and other assets	\$ 3,718,903	\$ 2,861,069	\$ 2,446,734	\$ 3,308,919	\$ 6,165,637	\$ 6,169,988
Capital assets, net	14,596,636	14,973,169	15,553,882	16,522,635	30,150,518	31,495,804
Total Assets	18,315,539	17,834,238	18,000,616	19,831,554	36,316,155	37,665,792
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources	278,972	754,854	34,480	93,297	313,452	848,151
Total Deferred Outflows of Resources	278,972	754,854	34,480	93,297	313,452	848,151
LIABILITIES						
Other liabilities	899,380	1,916,857	534,325	686,294	1,433,705	2,603,151
Long-term debt	8,577,550	8,806,205	7,084,034	7,851,607	15,661,584	16,657,812
Total Liabilities	9,476,930	10,723,062	7,618,359	8,537,901	17,095,289	19,260,963
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	524,343	146,748	64,806	18,137	589,149	164,885
Total Deferred Inflows of Resources	524,343	146,748	64,806	18,137	589,149	164,885
NET POSITION						
Net investment in capital assets	6,019,086	6,210,227	9,262,992	9,458,275	15,282,078	15,668,502
Restricted	329,528	278,338	-	-	329,528	278,338
Unrestricted	2,244,624	1,230,717	1,088,939	1,910,538	3,333,563	3,141,255
Total Net Position	\$ 8,593,238	\$ 7,719,282	\$ 10,351,931	\$ 11,368,813	\$ 18,945,169	\$ 19,088,095

City of Commerce, Texas
Comparative Statements of Activities
For the Years Ending September 30, 2020 and 2019

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 985,643	\$ 1,038,288	\$ 5,051,427	\$ 5,761,416	\$ 6,037,070	\$ 6,799,704
Operating grants/contributions	39,281	3,242			39,281	3,242
Capital grants/contributions	91,052	529,522			91,052	529,522
General revenues:						
Ad valorem taxes	2,902,353	2,695,460			2,902,353	2,695,460
Sales taxes	1,141,674	1,079,449			1,141,674	1,079,449
Franchise Taxes	487,413	511,912			487,413	511,912
Other	638,170	557,870	13,109	21,958	651,279	579,828
Total revenues	6,285,586	6,415,743	5,064,536	5,783,374	11,350,122	12,199,117
Expenses:						
Administration	1,652,042	1,633,618			1,652,042	1,633,618
Police department	1,554,263	1,502,283			1,554,263	1,502,283
Fire and emergency services	1,144,938	1,099,189			1,144,938	1,099,189
Public works	529,364	570,096			529,364	570,096
Parks and recreation	447,300	524,527			447,300	524,527
Development services	90,193	117,489			90,193	117,489
Judicial	64,422	79,348			64,422	79,348
Library	65,181	64,629			65,181	64,629
Airport	134,722	229,123			134,722	229,123
Interest and fiscal charges	252,447	266,690			252,447	266,690
Water, sewer, and environmental waste services			5,558,176	5,794,735	5,558,176	5,794,735
Total Expenses	5,934,872	6,086,992	5,558,176	5,794,735	11,493,048	11,881,727
Excess (deficiency) before transfers	350,714	328,751	(493,640)	(11,361)	(142,926)	317,390
Transfers	523,242		(523,242)			
Change in Net Position	873,956	328,751	(1,016,882)	(11,361)	(142,926)	317,390
Net position - October 1	7,719,282	7,345,486	11,368,813	11,380,174	19,088,095	18,725,660
Prior period adjustment		45,045				45,045
Net position - September 30	\$ 8,593,238	\$ 7,719,282	\$ 10,351,931	\$ 11,368,813	\$ 18,945,169	\$ 19,088,095

**City of Commerce, Texas
Comparative Balance Sheets
Governmental Funds
September 30, 2020 and 2019**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds	
				2020	2019
<u>Assets</u>					
Cash and cash equivalents	\$ 1,834,869	\$ 55,926	\$ 918,520	\$ 2,809,315	\$ 2,070,263
Cash and cash equivalents - restricted			155,678	155,678	330,319
Investments	14,674			14,674	14,615
Sales taxes receivable	213,510			213,510	216,865
Property taxes receivable, net	215,477	67,370		282,847	274,004
Franchise taxes receivable	29,435			29,435	31,676
Grants receivable			1,325	1,325	50,972
Fines receivable, net	36,583			36,583	42,429
Other receivables	24,590		349	24,939	78,089
Due from other funds				-	220,188
Inventory	15,949			15,949	15,958
Total Assets	\$ 2,385,087	\$ 123,296	\$ 1,075,872	\$ 3,584,255	\$ 3,345,378
<u>Liabilities</u>					
Accounts payable	67,245		5,396	72,641	179,440
Other accrued liabilities	15,653			15,653	28,729
Unearned grant revenues			72,150	72,150	-
Due to other funds				-	743,430
Total Liabilities	82,898	-	77,546	160,444	951,599
<u>Deferred Inflows of Resources</u>					
Unavailable property tax revenues	203,699	63,537		267,236	274,004
Unavailable court fine revenues	36,583			36,583	42,429
Total Deferred Inflows of Resources	240,282	63,537	-	303,819	316,433
<u>Fund Balances</u>					
Nonspendable:					
Inventory	15,949			15,949	15,958
Restricted for:					
Debt service		59,759		59,759	60,824
Court security & technology			58,648	58,648	56,956
Employee benefits			133,804	133,804	84,803
Hotel/motel			20,735	20,735	43,210
Police Department Seizures	19,310			19,310	-
Federal Seizures	4,601			4,601	-
Committed for:					
Animal Shelter			115,000	115,000	-
Capital improvements			566,505	566,505	43,263
Assigned for:					
Airport			6,934	6,934	-
Streets	144,231			144,231	170,511
Grants			97,692	97,692	132,514
Unassigned	1,877,816		(992)	1,876,824	1,469,307
Total Fund Balances	2,061,907	59,759	998,326	3,119,992	2,077,346
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,385,087	\$ 123,296	\$ 1,075,872	\$ 3,584,255	\$ 3,345,378

City of Commerce, Texas
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ended September 30, 2020 and 2019

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds	
				2020	2019
Revenues:					
Ad valorem taxes	\$ 2,238,767	\$ 712,783	\$ -	\$ 2,951,550	\$ 2,663,980
Franchise taxes	487,413			487,413	511,912
Sales tax	1,141,674			1,141,674	1,079,449
Beverage tax	10,585			10,585	17,506
Hotel and motel tax			20,312	20,312	37,814
Payments in lieu of taxes	137,600			137,600	110,000
Fines	27,742		1,692	29,434	56,124
Administration fees from proprietary funds	646,600			646,600	610,000
Permits and inspection fees	74,382			74,382	70,929
Intergovernmental	29,763			29,763	31,282
Component unit administration fees	103,473			103,473	90,728
Other income	410,685		594,554	1,005,239	920,697
Donations	620		75	695	18,155
Charges for services	45,808		8,960	54,768	210,507
Rents and leases	7,125		3,515	10,640	10,664
Interest	49,183		2,610	51,793	85,730
Federal state and local grants	2,460		36,821	39,281	501,191
Capital grants			33,118	33,118	31,573
Total Revenues	5,413,880	712,783	701,657	6,828,320	7,058,241
Expenditures:					
Administration	1,494,476		623,302	2,117,778	2,144,962
Police department	1,518,587			1,518,587	1,396,883
Fire and emergency services	1,063,972			1,063,972	996,362
Public works	286,507			286,507	305,140
Parks and recreation	411,977		21,424	433,401	492,629
Community development	91,147			91,147	109,337
Judicial	65,900			65,900	77,166
Library	65,181			65,181	64,629
Airport			20,766	20,766	108,188
Capital outlay			53,329	53,329	648,621
Debt Service:					
Principal		345,000		345,000	375,074
Interest and fiscal charges		253,848		253,848	267,903
Total Expenditures	4,997,747	598,848	718,821	6,315,416	6,986,894
Excess (Deficiency) of Revenues Over Expenditures	416,133	113,935	(17,164)	512,904	71,347
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	6,500			6,500	6,405
Operating transfers in (out)	(74,140)	(115,000)	712,382	523,242	-
Net Other Financing Sources (Uses)	(67,640)	(115,000)	712,382	529,742	6,405
Net change in fund balance	348,493	(1,065)	695,218	1,042,646	77,752
Fund balance, October 1	1,713,414	60,824	303,108	2,077,346	1,999,594
Fund balance, September 30	\$ 2,061,907	\$ 59,759	\$ 998,326	\$ 3,119,992	\$ 2,077,346

City of Commerce, Texas
Comparative Statements of Fund Net Position
Proprietary Funds
September 30, 2020 and 2019

	Water, Sewer and Environmental Waste	Water District	Total Proprietary Funds	Total Proprietary Funds
			2020	2019
ASSETS				
Cash and cash equivalents	\$ 828,519	\$ 11,847	\$ 840,366	\$ 1,270,507
Investments	93,733		93,733	93,358
Accounts receivable, net	661,976		661,976	577,050
Due from other funds				523,242
Inventory	57,515		57,515	57,515
Total current assets	1,641,743	11,847	1,653,590	2,521,672
Cash and cash equivalents - restricted	642,359		642,359	638,034
Investments - restricted	150,785		150,785	149,213
Total other non-current assets	793,144	-	793,144	787,247
Capital Assets:				
Non-depreciable land	639,255		639,255	639,255
Non-depreciable construction in progress	1,301		1,301	-
Water & sewer infrastructure	31,020,758		31,020,758	31,020,757
Equipment	3,418,268		3,418,268	3,411,595
Less accumulated depreciation	(19,525,700)		(19,525,700)	(18,548,972)
Capital assets, net	15,553,882	-	15,553,882	16,522,635
Deferred outflows - related to pensions and OPEB	34,480		34,480	93,297
Total deferred outflows of resources	34,480	-	34,480	93,297
Total assets and deferred outflows of resources	\$ 18,023,249	\$ 11,847	\$ 18,035,096	\$ 19,924,851
LIABILITIES				
Accounts payable	118,454	7,979	126,433	207,681
Accrued salaries and benefits	58,498		58,498	42,708
Other accrued liabilities	7,258		7,258	7,128
Accrued interest payable	4,280		4,280	4,280
Bonds payable - current	435,000		435,000	437,000
Capital lease payable - current	340,885		340,885	330,573
Unearned revenue			-	-
Meter deposits payable	275,885		275,885	244,851
Total current liabilities	1,240,260	7,979	1,248,239	1,274,221
Bonds payable - long-term	5,761,000		5,761,000	6,196,000
Capital leases - long term	547,149		547,149	888,034
Net pension and OPEB liabilities	61,971		61,971	179,646
Total non-current liabilities	6,370,120	-	6,370,120	7,263,680
Total liabilities	7,610,380	7,979	7,618,359	8,537,901
Deferred inflows - related to pensions and OPEB	64,806		64,806	18,137
Total deferred inflows of resources	64,806	-	64,806	18,137
NET POSITION				
Net investment in capital assets	9,262,992		9,262,992	9,458,275
Restricted for capital projects, \$793,144, net of related debt \$793,144	-		-	-
Unrestricted	1,085,071	3,868	1,088,939	1,910,538
Total Net Position	\$ 10,348,063	\$ 3,868	\$ 10,351,931	\$ 11,368,813

City of Commerce, Texas
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Years Ended September 30, 2020 and 2019

	Water and Sewer	Water District	Total Proprietary Funds	
			2020	2019
Operating Revenues:				
Charges for services	\$ 4,420,134	\$ -	\$ 4,420,134	\$ 4,370,479
Water sales	360,563	96,140	456,703	973,732
Penalties	21,817		21,817	42,100
Tap and reconnect fees	51,660		51,660	66,229
Other revenues	101,113		101,113	308,876
Total Operating Revenues	4,955,287	96,140	5,051,427	5,761,416
Operating Expenses:				
Salaries and benefits	1,040,924		1,040,924	854,211
Contracted services	944,592		944,592	944,070
Administration fees - general fund	646,600		646,600	610,000
Water purchases and related fees	456,703	95,760	552,463	537,337
Depreciation & amortization	976,727		976,727	977,697
Utilities and telephone	278,340		278,340	295,874
Repairs and facility maintenance	383,247		383,247	770,588
Chemicals	118,879		118,879	125,371
Payments in lieu of taxes	142,017		142,017	116,599
Other operating expenses	408,838	380	409,218	452,570
Total Operating Expenses	5,396,867	96,140	5,493,007	5,684,317
Operating Income	(441,580)	-	(441,580)	77,099
Nonoperating Revenues (Expenses):				
Interest income	12,948	161	13,109	21,958
Interest and fiscal charges	(65,169)		(65,169)	(110,418)
Gain (loss) on sale of assets			-	-
Nonoperating Revenues (Expenses)	(52,221)	161	(52,060)	(88,460)
Income (loss) before transfers	(493,801)	161	(493,640)	(11,361)
Capital contribution			-	-
Transfers in (out)	(523,242)		(523,242)	-
Change in net position	(1,017,043)	161	(1,016,882)	(11,361)
Net Position - October 1	11,365,106	3,707	11,368,813	11,380,174
Net Position, September 30	\$ 10,348,063	\$ 3,868	\$ 10,351,931	\$ 11,368,813

BASIC FINANCIAL STATEMENTS

City of Commerce, Texas
Statement of Net Position
September 30, 2020

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	\$ 2,928,963	\$ 840,366	\$ 3,769,329	\$ 2,333,764
Investments	14,674	93,733	108,407	
Property taxes receivable, net	215,477		215,477	
Sales taxes receivable	213,510		213,510	106,755
Franchise taxes receivable	29,435		29,435	
Grants receivable	16,325		16,325	
Fines receivable, net	36,583		36,583	
Accounts receivable, net		661,976	661,976	
Other receivables	24,939		24,939	281,998
Inventory	15,949	57,515	73,464	
Restricted assets:				
Cash and cash equivalents	155,678	642,359	798,037	80,998
Property taxes receivable, net	67,370		67,370	
Investments		150,785	150,785	
Capital assets:				
Land	506,804	639,255	1,146,059	485,222
Construction in progress	35,309	1,301	36,610	
Capital assets, net	14,054,523	14,913,326	28,967,849	
Total Assets	18,315,539	18,000,616	36,316,155	3,288,737
Deferred Outflows of Resources				
Deferred outflows-related to pensions	194,466	24,035	218,501	
Deferred outflows-related to OPEB	84,506	10,445	94,951	
Total Deferred Outflows of Resources	278,972	34,480	313,452	-
LIABILITIES				
Accounts payable	72,641	126,433	199,074	6,042
Accrued salaries and benefits	206,659	58,498	265,157	7,906
Other accrued expenses	15,653	7,258	22,911	
Accrued interest		4,280	4,280	
Meter deposits payable		275,885	275,885	
Unearned grant revenues	72,150		72,150	
Payable from restricted assets:				
Accrued interest	30,866		30,866	
Net pension liability	210,031	25,959	235,990	
Total OPEB liability	291,380	36,012	327,392	
Long-term liabilities:				
Due within one year:				
Bonds payable	355,000	435,000	790,000	
Capital leases	252,719	340,885	593,604	
Due in more than one year:				
Bonds payable	7,144,881	5,761,000	12,905,881	
Capital leases	824,950	547,149	1,372,099	
Total Liabilities	9,476,930	7,618,359	17,095,289	13,948
Deferred Inflows of Resources				
Deferred inflows-related to pensions	456,529	56,425	512,954	
Deferred inflows-related to OPEB	67,814	8,381	76,195	
Total Deferred Inflows of Resources	524,343	64,806	589,149	-
NET POSITION				
Net investment in capital assets	6,019,086	9,262,992	15,282,078	485,222
Restricted for debt service	92,430		92,430	
Restricted for hotel/motel tax use	20,735		20,735	
Restricted for employee benefits	133,804		133,804	
Restricted for court security & technology	58,648		58,648	
Restricted for police department & federal seizures	23,911		23,911	
Restricted for USDA revolving loan program				102,256
Restricted for business-type activities capital projects				
\$793,144 net of related debt \$793,144		-	-	
Unrestricted	2,244,624	1,088,939	3,333,563	2,687,311
Total Net Position	\$ 8,593,238	\$ 10,351,931	\$ 18,945,169	\$ 3,274,789

The accompanying notes are an integral part of this financial statement

City of Commerce, Texas
Statement of Activities
Year Ended September 30, 2020

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position				Component Unit
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government	
Governmental activities:							
Administration	\$ 1,652,042	\$ 806,521	\$ 41,318	\$ (810,025)	\$ -	\$ (810,025)	\$ -
Police department	1,554,263			(1,512,945)		(1,512,945)	
Fire and emergency services	1,144,938	2,460		(1,112,715)		(1,112,715)	
Public works	529,364		6,800	(448,182)		(448,182)	
Parks and recreation	447,300		42,934	(395,406)		(395,406)	
Community development	90,193			(90,193)		(90,193)	
Judicial	64,422			1,595		1,595	
Library	65,181			(65,181)		(65,181)	
Airport	134,722	1,325		(133,397)		(133,397)	
Economic development				-		-	(406,266)
Interest and fiscal charges	252,447			(252,447)		(252,447)	
Total governmental activities	5,934,872	39,281	91,052	(4,818,896)	-	(4,818,896)	(406,266)
Business-type activities:							
Water, Sewer, and Environmental Waste services	5,558,176				(506,749)	(506,749)	
Total business-type activities	5,558,176	-	-	-	(506,749)	(506,749)	
Total all activities	\$ 11,493,048	\$ 39,281	\$ 91,052	\$ (4,818,896)	\$ (506,749)	\$ (5,325,645)	\$ (406,266)
General revenues:							
Ad valorem taxes				2,902,353		2,902,353	
Sales taxes				1,141,674		1,141,674	570,837
Beverage tax				10,585		10,585	
Franchise taxes				487,413		487,413	
Payments in lieu of taxes				137,600		137,600	
Hotel taxes				20,312		20,312	
Other income and contributions				417,880		417,880	20,984
Unrestricted investment earnings				51,793	13,109	64,902	42,623
Transfers				523,242	(523,242)	-	
Total general revenues and transfers				5,692,852	(510,133)	5,182,719	634,444
Change in net position				873,956	(1,016,882)	(142,926)	228,178
Net position -beginning of year				7,719,282	11,368,813	19,088,095	3,046,611
Net position-end of year				\$ 8,593,238	\$ 10,351,931	\$ 18,945,169	\$ 3,274,789

City of Commerce, Texas
Balance Sheet
Governmental Funds
September 30, 2020

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,834,869	\$ 55,926	\$ 918,520	\$ 2,809,315
Cash and cash equivalents-restricted			155,678	155,678
Investments	14,674			14,674
Sales taxes receivable	213,510			213,510
Property taxes receivable, net	215,477	67,370		282,847
Franchise taxes receivable	29,435			29,435
Grants receivable			1,325	1,325
Fines receivable, net	36,583			36,583
Other receivables	24,590		349	24,939
Inventory	15,949			15,949
Total Assets	\$ 2,385,087	\$ 123,296	\$ 1,075,872	\$ 3,584,255
Liabilities				
Accounts payable	67,245		5,396	72,641
Other accrued liabilities	15,653			15,653
Unearned grant revenues			72,150	72,150
Total Liabilities	82,898	-	77,546	160,444
Deferred Inflows of Resources				
Unavailable property tax revenues	203,699	63,537		267,236
Unavailable court fine revenues	36,583			36,583
Total Deferred Inflows of Resources	240,282	63,537	-	303,819
Fund Balances				
Nonspendable:				
Inventory	15,949			15,949
Restricted for:				
Debt service		59,759		59,759
Court security & technology			58,648	58,648
Employee benefits			133,804	133,804
Hotel/motel			20,735	20,735
Police Department Seizures	19,310			19,310
Federal Seizures	4,601			4,601
Committed for:				
Animal shelter			115,000	115,000
Capital improvements			566,505	566,505
Assigned for:				
Airport			6,934	6,934
Streets	144,231			144,231
Grants			97,692	97,692
Unassigned	1,877,816		(992)	1,876,824
Total Fund Balances	2,061,907	59,759	998,326	3,119,992
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,385,087	\$ 123,296	\$ 1,075,872	\$ 3,584,255
Governmental fund balances as presented above:				\$ 3,119,992
Amounts presented for governmental activities in the statement of net position are different because:				
Capital assets reported in the statement of net position do not represent current financial resources and are not reported in the fund balance sheet.				12,988,715
Other long-term assets (receivables) are not available to pay current-period expenditures and therefore are deferred in the funds. These include deferred inflows of property taxes of \$267,236 and court fines of \$36,583.				303,819
Interest due on long-term debt is recorded as accrued interest payable in the statement of net position but do not become a liability in the fund statements until the date due.				(30,866)
An internal service fund is used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.				664,900
Long-term liabilities for related pension liability (\$210,031), deferred outflows related to pensions \$194,466, and deferred inflows related to pensions (\$456,529) are not recorded in the funds.				(472,094)
Long-term liabilities for related total OPEB liability (\$291,380) and deferred outflows related to OPEB \$84,506, and deferred inflows related to pensions (\$67,814) are not recorded in the funds.				(274,688)
Long-term liabilities are reported in the statement of net position but are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet. This amount consists of bonds payable (\$7,499,881) and long-term payroll liabilities (\$206,659).				(7,706,540)
Net Position - Governmental Activities				\$ 8,593,238

City of Commerce, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2020

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Ad valorem taxes	\$ 2,238,767	\$ 712,783	\$ -	\$ 2,951,550
Franchise taxes	487,413			487,413
Sales tax	1,141,674			1,141,674
Beverage tax	10,585			10,585
Hotel and motel tax			20,312	20,312
Payments in lieu of taxes	137,600			137,600
Fines	27,742		1,692	29,434
Administration fees from proprietary funds	646,600			646,600
Permits and inspection fees	74,382			74,382
Intergovernmental	29,763			29,763
Component unit administration fees	103,473			103,473
Other income	410,685		594,554	1,005,239
Donations	620		75	695
Charges for services	45,808		8,960	54,768
Rents and leases	7,125		3,515	10,640
Interest	49,183		2,610	51,793
Federal, state and local grants	2,460		36,821	39,281
Capital grants			33,118	33,118
Total Revenues	5,413,880	712,783	701,657	6,828,320
Expenditures:				
Administration	1,494,476		623,302	2,117,778
Police department	1,518,587			1,518,587
Fire and emergency services	1,063,972			1,063,972
Public works	286,507			286,507
Parks and recreation	411,977		21,424	433,401
Community development	91,147			91,147
Judicial	65,900			65,900
Library	65,181			65,181
Airport			20,766	20,766
Capital outlay			53,329	53,329
Debt Service:				
Principal		345,000		345,000
Interest and fiscal charges		253,848		253,848
Total Expenditures	4,997,747	598,848	718,821	6,315,416
Excess (Deficiency) of Revenues Over (Under) Expenditures	416,133	113,935	(17,164)	512,904
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	6,500			6,500
Operating transfers in (out)	(74,140)	(115,000)	712,382	523,242
Net Other Financing Sources (Uses)	(67,640)	(115,000)	712,382	529,742
Net change in fund balance	348,493	(1,065)	695,218	1,042,646
Fund balance, beginning	1,713,414	60,824	303,108	2,077,346
Fund balance, ending	\$ 2,061,907	\$ 59,759	\$ 998,326	\$ 3,119,992

The accompanying notes are an integral part of this financial statement.

City of Commerce, Texas
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2020

Net change in fund balances - total governmental funds (from previous page) **\$ 1,042,646**

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

Governmental funds report capital outlays as expenditures, while 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 of \$667,518 exceeded capital outlays of \$53,329. (614,189)

Long-term assets that will not require the use of current resources are not recorded in the governmental funds. The donated land valued at \$42,934 is included in governmental activities. 42,934

An internal service fund is used by management to charge the use of fleet management to individual funds. The change in net position of (\$46,096) is included in governmental activities. (46,096)

Proceeds from the issuance of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt retired for the year \$345,000, less bonds issued (\$0). 345,000

Changes in long-term liability for the compensated absences obligation does not require the use of current resources and therefore is not recorded in the funds. 16,253

Changes in long term amounts for net pension liabilities \$941,403, the related deferred outflows of resources related to pensions (\$498,610), and the related deferred inflows of resources related to pensions (\$322,637), are not recorded in the funds. 120,156

Changes in long term amounts for total OPEB liabilities \$10,695, and the related deferred outflows of resources related to OPEB \$22,728, and the related deferred inflows of resources related to OPEB (\$54,958), are not recorded in the funds. (21,535)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable deferred ad valorem taxes of (\$49,197) and the change in unavailable deferred court fines of \$36,583. (12,614)

Some expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This represents the decrease in accrued interest on debt of \$1,401. 1,401

Change in net position - governmental activities **\$ 873,956**

City of Commerce, Texas
Statement of Fund Net Position
Proprietary Funds
September 30, 2020

	Business-type Activities			Governmental Activities
	Water, Sewer and Environmental Waste	Water District	Total Proprietary Funds	Internal Service Fund
ASSETS				
Cash and cash equivalents	\$ 828,519	\$ 11,847	\$ 840,366	\$ 119,648
Investments	93,733		93,733	
Accounts receivable, net	661,976		661,976	
Grants receivable				15,000
Inventory	57,515		57,515	
Prepaid expenses				
Total current assets	1,641,743	11,847	1,653,590	134,648
Cash and cash equivalents - restricted	642,359		642,359	
Investments - restricted	150,785		150,785	
Total other non-current assets	793,144	-	793,144	-
Capital Assets:				
Non-depreciable land	639,255		639,255	
Non-depreciable Construction in progress	1,301		1,301	20,644
Water & sewer infrastructure	31,020,758		31,020,758	
Equipment	3,418,268		3,418,268	3,068,974
Less accumulated depreciation	(19,525,700)		(19,525,700)	(1,481,697)
Capital Assets, net	15,553,882	-	15,553,882	1,607,921
Deferred outflows of resources:				
Deferred outflows - related to pensions	24,035		24,035	
Deferred outflows - related to OPEB	10,445		10,445	
Total deferred outflows of resources	34,480	-	34,480	-
Total assets and deferred outflows of resources	\$ 18,023,249	\$ 11,847	\$ 18,035,096	\$ 1,742,569
LIABILITIES				
Accounts payable	118,454	7,979	126,433	
Accrued salaries and benefits	58,498		58,498	
Other accrued liabilities	7,258		7,258	
Accrued interest payable	4,280		4,280	
Bonds payable - current	435,000		435,000	
Capital lease payable - current	340,885		340,885	252,719
Meter deposits payable	275,885		275,885	
Total current liabilities	1,240,260	7,979	1,248,239	252,719
Bonds payable - long-term	5,761,000		5,761,000	
Capital leases - long term	547,149		547,149	824,950
Net pension liability	25,959		25,959	
Total OPEB liability	36,012		36,012	
Total non-current liabilities	6,370,120	-	6,370,120	824,950
Total liabilities	7,610,380	7,979	7,618,359	1,077,669
Deferred inflows of resources:				
Deferred inflows - related to pensions	56,425		56,425	
Deferred inflows - related to OPEB	8,381		8,381	
Total deferred inflows of resources	64,806	-	64,806	-
NET POSITION				
Net investment in capital assets	9,262,992		9,262,992	530,252
Restricted for capital projects, \$793,144, net of related debt \$793,144	-		-	
Unrestricted	1,085,071	3,868	1,088,939	134,648
Total Net Position	\$ 10,348,063	\$ 3,868	\$ 10,351,931	\$ 664,900

The accompanying notes are an integral part of this financial statement.

City of Commerce, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended September 30, 2020

	Business-type Activities			Governmental Activities
	Water, Sewer and Environmental Waste	Water District	Total Proprietary Funds	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 4,420,134	\$ -	\$ 4,420,134	\$ 207,877
Water sales	360,563	96,140	456,703	
Penalties	21,817		21,817	
Tap and reconnect fees	51,660		51,660	
Other revenues	101,113		101,113	
Total Operating Revenues	4,955,287	96,140	5,051,427	207,877
Operating Expenses:				
Salaries and benefits	1,040,924		1,040,924	
Contracted services	944,592		944,592	
Administration fees - general fund	646,600		646,600	
Water purchases and related fees	456,703	95,760	552,463	
Depreciation & amortization	976,727		976,727	238,850
Utilities	278,340		278,340	
Repairs and facility maintenance	383,247		383,247	
Chemicals	118,879		118,879	
Payments in lieu of taxes	142,017		142,017	
Other operating expenses	408,838	380	409,218	
Total Operating Expenses	5,396,867	96,140	5,493,007	238,850
Operating Income	(441,580)	-	(441,580)	(30,973)
Nonoperating Revenues (Expenses):				
Interest income	12,948	161	13,109	
Interest and fiscal charges	(65,169)		(65,169)	(51,155)
Gain (loss) on sale of assets				21,032
Nonoperating Revenues (Expenses)	(52,221)	161	(52,060)	(30,123)
Income (loss) before transfers	(493,801)	161	(493,640)	(61,096)
Capital grants				15,000
Transfers in (out)	(523,242)		(523,242)	
Change in net position	(1,017,043)	161	(1,016,882)	(46,096)
Net Position, October 1	11,365,106	3,707	11,368,813	710,996
Net Position, September 30	\$ 10,348,063	\$ 3,868	\$ 10,351,931	\$ 664,900

The accompanying notes are an integral part of this financial statement.

City of Commerce, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2020

	Water, Sewer and Environmental Waste	Water District	Total Proprietary Funds	Governmental Activities Internal Service Fund
Cash flows from operating activities:				
Cash received from customers and users	\$ 4,870,361	\$ 96,140	\$ 4,966,501	\$ -
Cash received from internal charges to other funds			-	207,877
Cash paid to employees	(1,037,323)		(1,037,323)	
Cash paid for internal charges to General Fund	(646,600)		(646,600)	
Cash paid to vendors	(2,813,734)	(96,140)	(2,909,874)	
Net cash provided (used) by operating activities	372,704	-	372,704	207,877
Cash flows from noncapital financing activities:				
Change in customer deposits	31,034		31,034	
Transfers to other funds	(523,242)		(523,242)	
Increase (decrease) in due to/from other funds	523,242		523,242	
Net cash provided (used) by noncapital financing activities	31,034	-	31,034	-
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(7,974)		(7,974)	(81,341)
Proceeds from sale of capital assets			-	25,650
Principal payments - bonds payable	(437,000)		(437,000)	
Principal payments - capital leases	(330,573)		(330,573)	(240,504)
Interest paid on bonds and capital lease obligations	(65,169)		(65,169)	(51,155)
Net cash provided (used) by capital and related financing activities	(840,716)	-	(840,716)	(347,350)
Cash flows from investing activities:				
Net redemptions (purchases) of investments	(1,947)		(1,947)	
Investment earnings	12,948	161	13,109	
Net cash provided (used) by investing activities	11,001	161	11,162	-
Net change in cash and cash equivalents	(425,977)	161	(425,816)	(139,473)
Cash and cash equivalents - beginning of year	1,896,855	11,686	1,908,541	259,121
Cash and cash equivalents - end of year	\$ 1,470,878	\$ 11,847	\$ 1,482,725	\$ 119,648
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (441,580)	\$ -	\$ (441,580)	\$ (30,973)
Adjustments to reconcile operating results to net cash provided (used) by operating activities:				
Depreciation	976,727		976,727	238,850
(Increase) decrease in accounts receivable	(84,926)		(84,926)	
(Increase) decrease in deferred outflows - related to pensions	61,626		61,626	
(Increase) decrease in deferred outflows - related to OPEB	(2,809)		(2,809)	
Increase (decrease) in accounts payable	(81,118)		(81,118)	
Increase (decrease) in accrued salaries and benefits	15,790		15,790	
Increase (decrease) in net pension liability	(116,353)		(116,353)	
Increase (decrease) in total OPEB liability	(1,322)		(1,322)	
Increase (decrease) in deferred inflows - related to pensions	39,877		39,877	
Increase (decrease) in deferred inflows - related to OPEB	6,792		6,792	
Total adjustments	814,284	-	814,284	238,850
Net cash provided (used) by operating activities	\$ 372,704	\$ -	\$ 372,704	\$ 207,877
Noncash investing, capital, and financing activities				
Capital assets acquired through capital leases	\$ -	\$ -	\$ -	\$ 357,199

The accompanying notes are an integral part of this financial statement.

City of Commerce, Texas
Notes to Financial Statements
September 30, 2020

1. Introduction and Summary of Significant Accounting Policies

The financial statements of the City of Commerce, Texas and its component units, Commerce Economic Development Corporation and Commerce Water District, collectively identified as the "City" have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending September 30, 2020.

(A) Reporting Entity and Related Organizations

The City was incorporated in 1885. The City is a municipal corporation governed by an elected mayor and a four member City Council. The City provides general administration, public works, police and judicial, fire and emergency services, water and sewer services, and waste management services to its residents. The Council hires a City Manager for day to day operations.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental "reporting entity" as defined by Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statements No. 14 and 39 as amended by GASB Statement 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria, the City has the following component units at September 30, 2020:

Discretely Presented Component Unit:

Commerce Economic Development Corporation (CEDC) - CEDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the CEDC board for cause. CEDC is a nonprofit corporation governed by Section 4A of the Texas Development Corporation Act of 1979 and organized for the public purpose of aiding, promoting and furthering economic development within the City of Commerce, Texas.

1. Introduction and Summary of Significant Accounting Policies - continued

Blended Component Unit:

Commerce Water District (CWD) – CWD owns water distribution facilities in order to provide treated water to the City of Commerce, Texas. The CWD is governed by a board appointed by the City Council.

Neither CEDC nor CWD prepare separate financial statements.

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and proprietary funds are reported in separate columns with composite columns for non-major funds.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions unless they conflict with GASB pronouncements.

1. Introduction and Summary of Significant Accounting Policies - continued

The government-wide financial statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting* generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements and financial statements of City component units are also prepared using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements are prepared using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest payments and compensated absences which are reported as expenditures when they are due.

Major revenues sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary funds are charges to customers for water and sewer sales or services and solid waste disposal fees. Principal operating expenses are the costs of providing these goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund - reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

Debt Service Fund - accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds, capital leases, and interest. This fund reports all such ad valorem taxes collected.

1. Introduction and Summary of Significant Accounting Policies – continued

Additionally, the City maintains the following non-major governmental funds:

- *Airport Fund* - accounts for the activities of the City's airport.
- *Grant Fund* - accounts for the grant funded activities of the City.
- *Capital Projects Fund* – accounts for the financing and acquisition of major capital projects. Fund resources are provided primarily through bond proceeds and interest earnings.
- *Recreational Programs Fund* - accounts for the operating activities of certain City recreational programs.
- *Hotel/Motel Tax Fund* - accounts for the collections and related expenditures of the City Hotel/Motel tax.
- *Volunteer Fire Department Fund* - closed out as September 30, 2019. For 2020 reporting purposes, 2019 ending fund balance in the amount of \$1,624 is included in the General Fund's beginning fund balance.
- *Employee Benefits Trust Fund* - accounts for contributions and related expenditures made for City employee benefits.
- *Demolition Fund* – closed out as September 30, 2019. For 2020 reporting purposes, 2019 ending fund balance in the amount of \$15,658 is included in the General Fund's beginning fund balance.
- *Municipal Court Security Fund* – accounts the portion of fines revenue designated for funding security services for the municipal court building.
- *Municipal Court Technology Fund* – accounts the portion of fines revenue designated for the purchase or maintenance of technological enhancements for the municipal court.

Proprietary Funds - The City reports the following major proprietary funds:

- *Water, Sewer, and Environmental Waste Services Fund* - accounts for the operating activities of the City's water, sewer, and environmental waste utility services.

Additionally, the City reports the following non-major proprietary funds:

- *Commerce Water District Fund* – accounts for the purchase and sale of water to the Sabine Water Authority. Activities of the fund include water purchases, water sales, and administration fees.
- *Internal Service Fund* – accounts for the financing of goods and services provided by the fund to other funds and departments on a cost reimbursement basis.

1. Introduction and Summary of Significant Accounting Policies – continued

(E) Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City maintains cash and investment pools which are shared by the various governmental and proprietary funds. In addition, non-pooled cash and investments are separately held and reflected in the respective individual funds. These pooled and non-pooled cash and investment pools are displayed on its respective balance sheet as "cash and cash equivalents" and "investments."

Investments are reported at fair value determined as follows. Short-term, highly liquid investments are reported at cost, which approximates fair value. Cash deposits are reported at the carrying amount which reasonably estimates fair value. Bank certificates of deposit are carried at cost which approximates fair value.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories and Prepaid Items

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements.

Prepaid items record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaid items are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if donated, at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty on the acquisition date. These assets are comprehensively reported in the government-wide financial statements. The City generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

1. Introduction and Summary of Significant Accounting Policies – continued

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20 - 40
Road infrastructure	20 - 25
Water & sewer infrastructure & rights	20 - 40
Vehicles	7
Furniture, machinery, and equipment	5 - 10

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.

Compensated Absences

Full-time employees earn vacation leave for each month of work performed. Progressive accrual of vacation leave is based on the number of years the individual is employed by the City. After completion of a probationary period of employment, accrued vacation leave and comp time is paid upon termination of employment. Full-time employees also earn sick leave time. Unused sick leave is not paid upon termination of employment. Compensated absences are reported as accrued in the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees. These are included in wages and benefits payable.

Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. Bond issuance costs are charged to expense or expenditure when incurred. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent the acquisition of resources that apply to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of resources that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time.

1. Introduction and Summary of Significant Accounting Policies – continued

Fund Equity

The City implemented GASB Statement 54 standards for the classification of fund balances in the governmental funds. The fund balances of governmental funds are defined as follows:

Non-spendable - amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through a formal resolution of the City Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council. The City Council delegates the responsibility to assign funds to the City Manager, Director of Finance, or other designee as determined by the Council.

Unassigned - all other spendable amounts in the general fund.

When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

(F) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League (TML) Employees Health Insurance Fund, Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public officials liability, and law enforcement professional liability coverage. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

(G) Estimates

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

2. **Stewardship, Compliance, and Accountability**

Budgetary Information

The City Manager submits an annual budget to the City Council in accordance with the laws of the State of Texas and the city charter. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally in August, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund has an approved budget that is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the individual fund level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.

The budgets for the operating funds are prepared on a basis consistent with GAAP. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget and actual required supplementary information is presented using this accounting basis. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

3. **Deposits and Investments**

Custodial credit risk for deposits is the risk that 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. The City's policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of City of Commerce, Texas (primary government) and its component units, CEDC and CWD, are fully insured or collateralized with securities held by the City or component unit, its agent, or by the pledging financial institution's trust department or agent in the name of the City or component unit, respectively at year-end.

Investments

Investments, when applicable, are stated at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At year-end, the City had no investments subject to the fair value hierarchy established by generally accepted accounting principles. For investments in local government pools, the reported value of the pool is the same as the fair value of the pool shares.

3. Deposits and Investments – continued

Below are the City's investments stated fair value at fiscal year-end:

	Fair Value	Rating	Weighted Average Maturity (Days)
TexSTAR	\$ 150,785	AAAm	39
Certificates of deposit	108,407	N/A	266
Total investments	<u>\$ 259,192</u>		

Ratings are provided where applicable to indicate associated **credit risk**.

During the year ended September 30, 2020 the City invested in certificates of deposit and TexSTAR.

TexSTAR, a public funds investment pool created and managed by First Southwest Asset Management, Inc. is empowered to invest funds and act as custodian of investments purchased by local governments. Authorized investments of TexSTAR include obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, certificates of deposit and repurchase agreements. The carrying amount of the City's investment in TexSTAR is at fair value. At year-end, the carrying amount and fair value of the City's investment in TexSTAR was \$150,785.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City Finance Director. Investing is performed in accordance with investment policies adopted by the City Council in compliance with the Public Funds Investment Act. City investment policy and state statute generally permit the City to invest in FDIC insured or fully collateralized certificates of deposit, public funds investment pools, United States treasuries and securities with the United States government's guarantee; obligations of United States government agencies and instrumentalities; and money market funds. During the year ended September 30, 2020, the City did not own any types of securities other than those permitted by the Public Funds Investment Act or by its investment policy. The City substantially complied with the provisions of the Public Funds Investment Act during the year.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. City policy generally requires investment maturities to correspond to anticipated cash flow needs. City policy also states that unless matched to a specific cash flow requirement, the City may not invest any portion of the City portfolio for a period greater than two years.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types to eliminate the risk of loss from over-concentration of assets in a specific issuer, or a specific class of securities. City investment policy states that with the exception of U. S. Treasury securities, no more than 50% of the City's investment portfolio will be invested in a single security type or with a single financial institution.

3. Deposits and Investments – continued

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's policy on safekeeping and custody requires that investments shall be held through third-party safekeeping agreements. All investment funds shall be placed directly with qualified financial institutions selected through the City's banking procurement process. All transactions shall be executed on a delivery versus payment basis.

4. Receivables, Uncollectible Accounts, and Deferred Revenue

Proprietary Fund Receivables, Uncollectible Accounts and Deferred Revenue

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Proprietary Fund reports accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. Following is the detail of the Proprietary Fund receivables and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$ 677,566
Less: allowance for uncollectible accounts	(15,590)
Net accounts receivable	<u>\$ 661,976</u>

Property Taxes Receivable, Deferred Inflows of Resources, and Property Tax Calendar

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property located within the City. Appraised values are established by the Hunt County Tax Appraisal District at 100% of market value.

The property tax rate for the year ended September 30, 2020 was 0.820000 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund type:

Maintenance and operations - General Fund	0.618364
Debt Service Fund	0.201636
Total tax rate	<u>0.820000</u>

In the governmental fund financial statements, property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is expected to be received. Management has recorded a 10% allowance for uncollectible delinquent property taxes of \$31,427 at year-end.

4. Receivables, Uncollectible Accounts, and Deferred Revenue - continued

The City's full year property tax calendar is as follows:

- October 1: Full year tax levy assessed for the current fiscal year-taxes are due and payable.
- January 1: Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.
- February 1: Penalty and interest charges begin to accrue on unpaid past due taxes.
- July 1: Taxes become delinquent and are subject to attorney fees incurred for collection.

Allowance for Uncollectible Taxes

No provisions are made for uncollectible sales tax receivables or grants receivable as management estimates that these amounts will be fully collectible.

Fines and Court Costs Receivable and Related Allowances

In the governmental fund financial statements, fines and court costs are recognized as revenue on the modified accrual basis. Estimated amounts collected within 60 days of year end are accrued in the General Fund.

In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities have been determined based on distribution requirements of the State of Texas.

Following is a summary of fines receivable and the related allowances at year end:

Gross amount of outstanding fines	\$ 406,480
Less allowance for uncollectible amounts	<u>(166,657)</u>
Net estimated fine collections	239,823
Less estimated collections due to the State	<u>(203,240)</u>
City fines receivable, net of allowances	<u>\$ 36,583</u>

5. Capital Assets

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Governmental Activities:				
Non-depreciable capital assets:				
Land	\$ 463,870	\$ 42,934	\$ -	\$ 506,804
Construction in progress	8,960	26,349	-	35,309
Non-depreciable capital assets	<u>472,830</u>	<u>69,283</u>	<u>-</u>	<u>542,113</u>
Depreciable capital assets:				
Buildings & improvements	7,545,406	-	-	7,545,406
Infrastructure	9,932,162	21,306	-	9,953,468
Machinery & equipment	<u>4,739,444</u>	<u>444,214</u>	<u>(143,591)</u>	<u>5,040,067</u>
Depreciable capital assets	<u>22,217,012</u>	<u>465,520</u>	<u>(143,591)</u>	<u>22,538,941</u>
Less: accumulated depreciation	<u>(7,716,673)</u>	<u>(906,368)</u>	<u>138,623</u>	<u>(8,484,418)</u>
Governmental Activities				
Capital Assets, net	<u>\$ 14,973,169</u>	<u>\$ (371,565)</u>	<u>(4,968)</u>	<u>\$ 14,596,636</u>
Business-Type Activities:				
Non-depreciable capital assets:				
Land	\$ 639,255	\$ -	\$ -	\$ 639,255
Construction in progress	-	1,301	-	1,301
Non-depreciable capital assets	<u>639,255</u>	<u>1,301</u>	<u>-</u>	<u>640,556</u>
Depreciable capital assets:				
Machinery & equipment	3,411,595	6,673	-	3,418,268
Water & sewer system	<u>31,020,758</u>	<u>-</u>	<u>-</u>	<u>31,020,758</u>
Depreciable capital assets	<u>34,432,353</u>	<u>6,673</u>	<u>-</u>	<u>34,439,026</u>
Less: accumulated depreciation	<u>(18,548,973)</u>	<u>(976,727)</u>	<u>-</u>	<u>(19,525,700)</u>
Business-type Activities				
Capital Assets, net	<u>\$ 16,522,635</u>	<u>\$ (968,753)</u>	<u>\$ -</u>	<u>\$ 15,553,882</u>
Component Unit:				
Non-depreciable capital assets:				
Land	\$ 519,238	\$ -	\$ (34,016)	\$ 485,222
Depreciable capital assets:				
Buildings & improvements	2,675	-	-	2,675
Equipment	4,061	-	-	4,061
Less: accumulated depreciation	<u>(6,736)</u>	<u>-</u>	<u>-</u>	<u>(6,736)</u>
Depreciable capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Component Unit				
Capital Assets, Net	<u>\$ 519,238</u>	<u>\$ -</u>	<u>\$ (34,016)</u>	<u>\$ 485,222</u>

5. Capital Assets - continued

Depreciation expense for governmental activities was charged to functions of the City as follows:

Administration	\$	136,412
Community development		3,245
Fire & emergency services		95,098
Airport		113,956
Parks and recreation		20,370
Police		55,329
Public works		243,108
Internal service fund		238,850
Total	\$	<u>906,368</u>

Depreciation expense recorded in business-type activities and the Water and Sewer Fund was \$976,727.

The gross amount of assets included in the equipment category above which are recorded under capital lease obligations is \$3,627,544. Accumulated amortization of these assets is \$1,938,771. Amortization expense is included in depreciation expense.

6. Long-Term Obligations

Long-term Obligations Supporting Governmental Activities

Certificates of obligation bonds issued by the City are backed by the full faith and credit of the City. These bonds are to be repaid with property taxes levied for debt service and recorded in the Debt Service Fund. The City's borrowing capacity is restrained by maintaining the City's debt at a responsible level. Other debt issued to support governmental activities are capital lease obligations which are primarily paid from the General Fund.

Interest expense for governmental activities was \$252,447. This is reported as a separate line item in the statement of activities. No interest was capitalized in governmental activities.

Business-type Activities - Revenue Bonds

Revenue bonds consist of debt issued to support activities of the Water and Sewer Proprietary Fund. In addition to being backed by the full faith and credit of the City, revenue bonds are secured by a lien on and a pledge of the surplus revenues of the water and sewer system. Other debt issued to support business-type activities are capital lease obligations which are secured by the equipment purchased with the capital lease proceeds.

Interest expense for business-type activities and the Water and Sewer Proprietary Fund was \$65,169 for the year. No interest was capitalized in business-type activities or the Proprietary Fund.

The following page contains a summary of changes in bonds payable and capital lease obligations for the year:

6. Long-Term Obligations – continued:

Governmental Activities	Beginning	Issued	Retired	Ending	Due Within One Year
<i>Direct Borrowings</i>					
Combination Tax & Revenue					
Certificates of Obligation					
Series 2006, 4.06%, 2006-2026	\$ 194,955	\$ -	\$ (40,000)	\$ 154,955	\$ 40,000
Combination Tax & Revenue					
Certificates of Obligation					
Series 2008, 3.79%, 2008-2023	224,926		(55,000)	\$ 169,926	55,000
General Obligation Refunding and					
Improvement Bonds					
Maturities 2013-2037					
Series 2012, 2.0%-3.75%	7,425,000		(250,000)	\$ 7,175,000	260,000
Capital lease obligations	961,324	356,849	(240,504)	\$ 1,077,669	252,719
Total Governmental Activities	\$ 8,806,205	\$ 356,849	\$ (585,504)	\$ 8,577,550	\$ 607,719
<i>Business-type Activities</i>					
<i>Direct Borrowings</i>					
Combination Tax & Revenue					
Certificates of Obligation					
Series 2007, 0%, 2007-2027	\$ 800,000	\$ -	\$ (100,000)	\$ 700,000	\$ 100,000
Combination Tax & Revenue					
Certificate of Obligation					
Series 2010-A, 0%, 2010-2040	1,707,000		(81,000)	\$ 1,626,000	81,000
Combination Tax & Revenue					
Certificate of Obligation					
Series 2010-B, 0%, 2010-2040	354,000		(16,000)	\$ 338,000	16,000
Combination Tax & Revenue					
Certificate of Obligation					
Series 2010-C, 0%, 2010-2040	2,455,000		(115,000)	\$ 2,340,000	115,000
General Obligation Refunding and					
Improvement Bonds					
Series 2017, 2.6%, 2017-2029	1,317,000		(125,000)	\$ 1,192,000	123,000
Capital lease obligations	1,218,607		(330,573)	\$ 888,034	340,885
Total Business-type Activities	\$ 7,851,607	\$ -	\$ (767,573)	\$ 7,084,034	\$ 775,885

6. Long-Term Obligations - continued

The City's general obligation bonds are guaranteed by the full faith and credit of the City. The bond issues are approved by the voters and repaid with property taxes recorded in the Debt Service Fund. Current requirements for principal and interest of these obligations are accounted for in the Debt Service Fund.

Certificates of obligation bonds represent general obligations of the City and are backed by the full faith and credit of the City and require the City to annual assess ad valorem taxes sufficient to provide for payment of the certificates as they mature. The certificates are additionally secured by and payable from a pledge of surplus revenues of the City's water and wastewater system that remain (1) after payment of all operation and maintenance expenses thereof and (2) after payment of all debt service, reserve and other requirements in connection with all of the City's revenue obligations.

Terms of the certificates of obligation bonds require the City to establish sinking funds in order to accumulate resources for the repayment of principal and interest on the bonds as they mature. At year-end the City was in compliance with these sinking fund requirements. Amounts set aside to meet interest and sinking fund requirements are reflected as restricted cash or restricted investments at year-end.

Capital lease agreements represent general obligations of the City, and are secured by the equipment acquired by the capital lease proceeds. Current requirements for principal and interest of capital lease obligations are accounted for in the appropriate fund for which the liability was incurred.

Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities payable from the General Fund.

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for bonded debt and capital lease obligations for governmental activities are as follows at year-end:

Fiscal Year Ending September 30,	Governmental Activities					
	Bonds Payable		Capital Lease Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 355,000	\$ 241,989	\$ 252,719	\$ 39,723	\$ 607,719	\$ 281,712
2022	365,000	230,331	263,892	28,551	628,892	258,882
2023	379,926	218,279	267,485	14,563	647,411	232,842
2024	389,955	205,994	140,021	7,456	529,976	213,450
2025	365,000	193,775	153,552	1,967	518,552	195,742
2026-2030	2,165,000	785,125			2,165,000	785,125
2031-2035	2,410,000	419,364			2,410,000	419,364
2036-2040	1,070,000	40,500			1,070,000	40,500
Totals	<u>\$7,499,881</u>	<u>\$2,335,357</u>	<u>\$1,077,669</u>	<u>\$ 92,260</u>	<u>\$8,577,550</u>	<u>\$2,427,617</u>

6. Long-Term Obligations – continued

The annual debt service requirements to maturity for bonded debt and capital lease obligations for business-type activities are as follows at year-end:

Fiscal Year Ending September 30,	<i>Business-type Activities</i>					
	Bonds Payable		Capital Lease Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 435,000	\$ 29,393	\$ 340,885	\$ 22,240	\$ 775,885	\$ 51,633
2022	437,000	26,169	326,873	11,997	763,873	38,166
2023	441,000	22,880	220,276	2,486	661,276	25,366
2024	443,000	19,526	-	-	443,000	19,526
2025	450,000	16,055			450,000	16,055
2026-2030	1,814,000	26,871			1,814,000	26,871
2031-2035	1,081,000	-			1,081,000	-
2036-2040	1,095,000	-			1,095,000	-
Totals	\$ 6,196,000	\$ 140,894	\$ 888,034	\$ 36,723	\$ 7,084,034	\$ 177,617

In addition to the bonds and capital leases above, the City also has the following long-term obligations:

	Balance Beginning	Increase	Decrease	Balance Ending	Due Within One Year
<i>Governmental Activities:</i>					
Compensated absences	\$ 222,912		\$ 16,253	\$ 206,659	\$ 206,659

It is anticipated that the liability for compensated absences described above will be paid from the General Fund when due.

Component Unit (CEDC):

CEDC did not have any long-term obligations during the year.

7. Defined Benefit Pension Plans

Plan Description

The City 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 (CAFR) that can be obtained at www.tmrs.com. All eligible employees of the City are required to participate in TMRS.

7. Defined Benefit Pension Plans – continued

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 their retirement 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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100%, Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Reporting

Employees Covered by Benefit Terms

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	66
Inactive employees entitled to but not yet receiving benefits	108
Active employees	<u>74</u>
	<u>248</u>

Contributions

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

Employees of the City were required to contribute 4.89% of their annual gross earnings during the fiscal year. The contribution rates for the City of Commerce, Texas were 8.56% and 8.50% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2020, were \$286,093, and were equal to the required contributions.

7. Defined Benefit Pension Plans – continued

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	2.25% per year, adjusted down for population declines, 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.

The healthy post-retirement mortality assumption and the mortality assumption for Annuity Purchase Rates (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. All other 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. 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:

7. Defined Benefit Pension Plans – continued

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

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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2018	\$ 11,809,177	\$ 10,515,431	\$ 1,293,746
Changes for the year:			
Service cost	336,915		336,915
Interest	789,761		789,761
Change of benefit terms			
Difference between expected and actual experience	(128,639)		(128,639)
Changes of assumptions	(18,054)		(18,054)
Contributions - employer		279,428	(279,428)
Contributions - employee		143,003	(143,003)
Net investment income		1,624,770	(1,624,770)
Benefit payments, including refunds of employee contributions	(554,935)	(554,935)	
Administrative expense		(9,186)	9,186
Other changes		(276)	276
Net changes	\$ 425,048	\$ 1,482,804	\$ (1,057,756)
Balance at 12/31/2019	\$ 12,234,225	\$ 11,998,235	\$ 235,990

7. Defined Benefit Pension Plans – continued

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	\$ 2,072,915	\$ 235,990	\$ (1,245,609)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

For the year ended September 30, 2020, the City recognized pension expense of \$151,088. 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	\$ -	\$ 134,486
Changes in actuarial assumptions	-	12,016
Difference between projected and actual investment earnings	-	366,452
Contributions subsequent to the measurement date	218,501	-
Total	\$ 218,501	\$ 512,954

\$218,501 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2021	\$ (200,417)
2022	(160,430)
2023	30,887
2024	(182,994)
2025	-
Thereafter	-
Total	\$ (512,954)

8. Postemployment Benefits Other Than Pensions (OPEB)

Plan description - The City maintains a single-employer defined benefit group-term life insurance plan known as the TMRS Supplemental Death Benefits Fund ("SDBF"). The plan is administered by the Texas Municipal Retirement System ("TMRS"). This is a voluntary program in which the City elected, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*).

Benefits provided - The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12 month period preceding the month of death). The death benefit for retirees is considered an Other Post-Employment Benefit ("OPEB") and is a fixed amount of \$7,500.

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to but not yet receiving benefits	23
Active employees	<u>74</u>
Total	<u>141</u>

Contributions

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

The City's SDBF contribution rates for all covered employees of the City in calendar years 2020 and 2019 were .23% and .23% respectively. The City's contributions for all covered employees to the TMRS SDBF for the fiscal years ended September 30, 2020, and September 30, 2019, were \$6,735 and \$6,638, respectively, which equaled the required contributions for each year. The retiree portion of this contribution rate (OPEB portion) was 0.11% and 0.10% of covered payroll in calendar years 2020 and 2019 respectively.

8. Postemployment Benefits Other Than Pensions (OPEB) – continued

Total OPEB Liability

The City's total OPEB liability (TOL) of \$327,392 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs:

The total OPEB liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	2.5% per year
Salary Increase	3.5% to 11.5% per year, including inflation
Discount Rate	2.75%
Retirees Share of Benefit Costs	\$ -0-

Salary increases are assumed to occur once a year and are assumed to increase by a graduated service-based scale ranging from 11.5% for employees with one year of service to 3.5% for employees with 25 or more years of service.

Mortality rates for service retirees were based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. Based on the size of the city, rates are multiplied by an additional factor of 100.0%.

For disabled retirees, the 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% 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 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 applicable discount rate for an unfunded OPEB plan under GASB No. 75 is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

8. Postemployment Benefits Other Than Pensions (OPEB) – continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/18	\$ 339,409
Changes for the year:	
Service cost	7,150
Interest on total OPEB liability	12,672
Change in benefit terms	-
Differences between expected & actual experience	(80,778)
Changes in assumptions and other inputs	51,799
Benefit payments*	(2,860)
Other charges	-
Net changes	\$ (12,017)
Balance at 12/31/19	\$ 327,392

*Due to the Supplemental Death Benefit Fund being considered an unfunded OPEB plan under GASB Statement No. 75, benefit payments are treated as being equal to the employer's yearly contribution for retirees.

The SDBF does not incur TMRS Administrative Expenses. The City is charged and the administrative expenses are paid through the TMRS Defined Benefit Pension Plan recorded under GASB Statement No. 68.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75% (as compared to 3.71% in the prior year), as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1 % Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
City's total OPEB liability	\$ 395,592	\$ 327,392	\$ 275,329

8. Postemployment Benefits Other Than Pensions (OPEB) – continued

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$27,213. At year-end, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience (net of current year amortization)	\$ 39,056	\$ 65,214
Changes in assumptions and other inputs	50,751	10,981
Contributions made subsequent to measurement date	5,144	-
Total	<u>\$ 94,951</u>	<u>\$ 76,195</u>

\$5,144 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2021	\$ 7,391
2022	7,391
2023	3,973
2024	(4,079)
2025	(1,064)
Thereafter	-
Total	<u>\$ 13,612</u>

9. Commitments and Contingencies

The City is involved in litigation from time to time during the ordinary course of business. Management estimates that any potential litigation will not have a material impact on the City's financial statements.

The City currently has an ongoing dispute with North Hunt Water Supply Corporation regarding amounts owed to the City for wholesale water purchases. The amount the City may receive is undeterminable at this time, and the City has not recognized any of the disputed amounts in the financial statements.

In March 2020, Texas Governor Greg Abbott declared the state of Texas a disaster area as a result of the COVID-19 pandemic. Subsequently, the continued spread of this novel coronavirus across the United States and the world has created significant uncertainty about the breadth and duration of business disruptions associated with the pandemic. The extent of the impact of COVID-19 on the City's operations and financial performance will depend on the duration and spread of the virus. The effects of the pandemic on the City cannot be determined at this time.

9. Commitments and Contingencies - continued

The City participates in various state and federal grant programs and contracts which are subject to financial and compliance audits by the grantors or their representatives. Audits of these programs by the granting organizations for the year ended September 30, 2020, have not been conducted. Accordingly, the City's final compliance with applicable grant and contract requirements will be established at some future date. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

In early March 2021, the City approved issuance of Combination Tax & Revenue Certificate of Obligation Bonds in the amount of \$2,615,000. \$1,615,000 will be used to perform street improvements and purchase public safety equipment, and \$1,000,000 will be used for Water & Wastewater Treatment Plant Repairs.

The City has also committed \$350,000 for utility infrastructure repairs related to the raw motor control center replacement, wastewater pump replacement, and water treatment plant filter replacement. These projects will be funded by a Texas Community Development Block Grant, Texas Water Development Board funds currently held in escrow, as well as the 2021 bond proceeds.

The City has also committed \$730,000 to extend the Commerce Municipal Airport north taxiway, which will be funded by a Texas Department of Transportation grant.

10. Balances and Transfers/Payments Within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There are no receivables or payables within the reporting entity at year-end.

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs. The government-wide statement of activities eliminates transfers reported within governmental activities. The following schedule reports transfers and payments within the reporting entity:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 91,423
Water and Sewer Fund	115,000	638,242
Other Governmental Funds	729,665	
Debt Service Fund		115,000
Total transfers	\$ 844,665	\$ 844,665

The transfers from the General Fund provided the other governmental funds with supplementary funding for the year. Transfers from the Water Sewer Fund to the Capital Projects Fund provided funds for future construction of an animal shelter and the other capital improvements. \$115,000 was transferred out of the Debt Service Fund to the Water and Sewer Fund for debt service.

11. Economic Dependence

City operations are funded by taxes and revenues provided by the residents of the City of Commerce, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of Commerce, Texas and the surrounding area.

12. Restricted Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments restricted for capital projects are as follows at year-end:

Cash and cash equivalents	\$ 642,359
Investments	<u>150,785</u>
Totals	<u>\$ 793,144</u>

Amounts restricted for capital projects represent bond proceeds awaiting expenditure for capital projects.

Cash and cash equivalents accumulated from the hotel motel tax (\$20,735) and for employee benefit payments (\$134,943) are also included in restricted cash at year-end.

13. Fund Balance Deficits – Non-major funds

At the end of the fiscal year, the Recreational Programs Fund had a fund balance deficit of \$992.

REQUIRED SUPPLEMENTARY INFORMATION

City of Commerce, Texas
Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Ad valorem taxes	\$ 2,134,478	\$ 2,134,478	\$ 2,238,767	\$ 104,289
Franchise taxes	493,000	493,000	487,413	(5,587)
Sales tax	1,000,000	1,000,000	1,141,674	141,674
Beverage tax	16,000	16,000	10,585	(5,415)
Payments in lieu of taxes	137,600	137,600	137,600	-
Fines	70,000	70,000	27,742	(42,258)
Administration fees from proprietary funds	646,600	646,600	646,600	-
Permits and inspection fees	46,700	46,700	74,382	27,682
Intergovernmental	29,000	29,000	29,763	763
Component unit administration fees	94,445	94,445	103,473	9,028
Other income	354,500	354,500	410,685	56,185
Donations			620	620
Charges for services	64,150	64,150	45,808	(18,342)
Rents and leases	6,900	6,900	7,125	225
Interest	50,000	50,000	49,183	(817)
Federal and state grants	1,000	1,000	2,460	1,460
Total Revenues	5,144,373	5,144,373	5,413,880	269,507
Expenditures:				
Administration	1,666,501	1,666,501	1,494,476	172,025
Police department	1,591,595	1,591,595	1,518,587	73,008
Fire and emergency services	1,115,375	1,115,375	1,063,972	51,403
Public works	329,169	329,169	286,507	42,662
Parks and recreation	446,757	446,757	411,977	34,780
Community Development	184,618	184,618	91,147	93,471
Judicial	80,691	80,691	65,900	14,791
Library	74,700	74,700	65,181	9,519
Capital outlay			-	-
Debt Service:				
Principal			-	-
Interest and fiscal charges			-	-
Total Expenditures	5,489,406	5,489,406	4,997,747	491,659
Excess (Deficiency) of Revenues Over Expenditures	(345,033)	(345,033)	416,133	761,166
Other Financing Sources (Uses):				
Proceeds from sale of capital assets			6,500	6,500
Operating transfers in (out)			(74,140)	(74,140)
Net Other Financing Sources (Uses)	-	-	(67,640)	(67,640)
Net change in fund balances	(345,033)	(345,033)	348,493	693,526
Fund balance, October 1	1,713,414	1,713,414	1,713,414	-
Fund balance, September 30	\$ 1,368,381	\$ 1,368,381	\$ 2,061,907	\$ 693,526

See accountant's report on required supplementary information.

City of Commerce, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years (will ultimately be displayed)

	Plan Year Ended December 31,				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 336,915	\$ 329,072	\$ 317,484	\$ 321,694	\$ 321,674
Interest on the Total Pension Liability	789,761	760,052	733,737	704,581	685,933
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(128,639)	(114,660)	(179,982)	(131,344)	(21,602)
Change of assumptions	(18,054)	-	-	-	74,198
Benefit payments, including refunds of employee contributions	(554,935)	(521,566)	(452,796)	(468,961)	(373,073)
Net Change in Total Pension Liability	425,048	452,898	418,443	425,970	687,130
Total Pension Liability - Beginning	11,809,177	11,356,279	10,937,836	10,511,866	9,824,736
Total Pension Liability - Ending	\$ 12,234,225	\$ 11,809,177	\$ 11,356,279	\$ 10,937,836	\$ 10,511,866
Plan Fiduciary Net Position					
Contributions - employer	\$ 279,428	\$ 256,451	\$ 242,205	\$ 229,774	\$ 256,531
Contributions - employee	143,003	140,749	136,376	137,125	144,249
Net investment income	1,624,770	(328,597)	1,345,429	621,688	13,526
Benefit payments, including refunds of employee contributions	(554,935)	(521,566)	(452,796)	(468,961)	(373,073)
Administrative expense	(9,186)	(6,354)	(6,975)	(7,021)	(8,238)
Other	(276)	(332)	(354)	(378)	(408)
Net Change in Plan Fiduciary Net Position	1,482,804	(459,649)	1,263,885	512,227	32,587
Plan Fiduciary Net Position - Beginning	10,515,431	10,975,080	9,711,195	9,198,968	9,166,381
Plan Fiduciary Net Position - Ending	\$ 11,998,235	\$ 10,515,431	\$ 10,975,080	\$ 9,711,195	\$ 9,198,968
Net Pension Liability (Asset) - Ending	\$ 235,990	\$ 1,293,746	\$ 381,199	\$ 1,226,641	\$ 1,312,898
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	98.07%	89.04%	96.64%	88.79%	87.51%
Covered Employee Payroll	\$ 2,860,057	\$ 2,814,988	\$ 2,727,528	\$ 2,742,493	\$ 2,884,971
Net Pension Liability as a Percentage of Covered Employee Payroll	8.25%	45.96%	13.98%	44.73%	45.51%
					24.25%

See accountant's report on required supplementary information.

City of Commerce, Texas
Schedule of Pension Contributions
Last 10 Fiscal Years (will ultimately be displayed)

	Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 286,093	\$ 278,996	\$ 252,087	\$ 249,812	\$ 244,732
Contributions in relation to the actuarially determined contribution	286,093	278,996	252,087	249,812	244,732
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,928,277	\$ 2,856,341	\$ 2,813,919	\$ 2,774,965	\$ 2,791,822
Contributions as a percentage of covered employee payroll	9.77%	9.77%	8.96%	9.00%	8.77%
					9.24%

Schedule Notes:

Valuation Dates:

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

Other Information:

Notes

There were no benefit changes during the year.

See accountant's report on required supplementary information.

City of Commerce, Texas
Schedule of Changes in Total OPEB Liability and Related Ratios
Last 10 Fiscal Years (will ultimately be displayed)

Actuarial Valuation & Measurement Date, December 31,	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 7,150	\$ 8,163	\$ 6,819
Interest on the total OPEB liability	12,672	9,322	9,306
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(80,778)	63,698	-
Changes in assumptions or other inputs	51,799	(17,909)	21,284
Benefit payments *	(2,860)	(2,815)	(2,455)
Net Change in Total OPEB Liability	(12,017)	60,459	34,954
Total OPEB Liability - Beginning	339,409	278,950	243,996
Total OPEB Liability - Ending	327,392	339,409	278,950
Covered Payroll	\$ 2,860,057	\$ 2,814,988	\$ 2,727,528
Total OPEB Liability as a Percentage of Covered Payroll	11.45%	12.06%	10.23%
Required contribution			
Actual contribution	\$ 6,735	\$ 6,638	\$ 2,455
Difference	\$ -	\$ -	\$ -
Required contribution as a % of Covered Payroll	0.235%	0.236%	0.090%

Schedule Notes:

Plan information:
Single-employer unfunded OPEB plan

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

Actuarial Valuation & Measurement Date:

December 31

Significant actuarial assumptions used to measure the total OPEB liability:

Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	2.75% (Based on Fidelity Index's "20-year Municipal GO AA Index" rate as of 12/31/19)
Retirees' Share of Benefit-related Costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward 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.

* 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.

This schedule is presented to illustrate the requirements to show information for 10 years. Future years will be provided as the information becomes available.

See accountant's report on required supplementary information.

**COMBINING NON-MAJOR GOVERNMENTAL FUND
FINANCIAL STATEMENTS**

City of Commerce, Texas
Combining Balance Sheet
Other Governmental Funds
September 30, 2020

	Airport	Grant	Capital Projects	Recreational Programs	Hotel/ Motel	Employee Benefits Trust	Municipal Court Security	Municipal Court Technology	Total
ASSETS									
Cash & cash equivalents	\$ 5,874	\$ 169,842	\$ 681,505	\$ 2,523	\$ -	\$ -	\$ 25,436	\$ 33,340	\$ 918,520
Cash & cash equivalents - restricted					20,735	134,943			155,678
Grant receivable	1,325								1,325
Other receivables	349								349
Total Assets	\$ 7,548	\$ 169,842	\$ 681,505	\$ 2,523	\$ 20,735	\$ 134,943	\$ 25,436	\$ 33,340	\$ 1,075,872
LIABILITIES									
Accounts payable	614			3,515		1,139	25	103	5,396
Unearned grant revenues		72,150							72,150
Total Liabilities	614	72,150	-	3,515	-	1,139	25	103	77,546
FUND BALANCE									
Restricted for:									
Court security & technology							25,411	33,237	58,648
Employee benefits						133,804			133,804
Hotel/motel					20,735				20,735
Committed for:									
Animal Shelter			115,000						115,000
Capital improvements			566,505						566,505
Assigned for:									
Airport	6,934								6,934
Grant		97,692							97,692
Unassigned				(992)					(992)
Total Fund Balances	6,934	97,692	681,505	(992)	20,735	133,804	25,411	33,237	998,326
Total Liabilities and Fund Balances	\$ 7,548	\$ 169,842	\$ 681,505	\$ 2,523	\$ 20,735	\$ 134,943	\$ 25,436	\$ 33,340	\$ 1,075,872

See auditor's report on supplementary information.

City of Commerce, Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Other Governmental Funds
Year Ended September 30, 2020

	Airport Fund	Grant	Capital Projects	Recreational Programs	Hotel/ Motel	Employee Benefits Trust	Municipal Court Security	Municipal Court Technology	Total
Revenues:									
Hotel/motel tax	\$ -	\$ -	\$ -	\$ -	\$ 20,312	\$ -	\$ -	\$ -	\$ 20,312
Fines									
Other income									
Donations				75		594,554	783	909	1,692
Charges for services				8,960					594,554
Rents and leases									75
Interest	3,515								8,960
	447	1,047							3,515
Federal, state and local grants	1,325	35,496		26		1,090			2,610
Capital grants		33,118							36,821
									33,118
Total Revenues	5,287	69,661	-	9,061	20,312	595,644	783	909	701,657
Expenditures:									
Administration		35,496			42,787	545,019			623,302
Parks and Recreation				21,424					21,424
Airport	20,766								20,766
Capital outlay		53,329							53,329
Total Expenditures	20,766	88,825	-	21,424	42,787	545,019	-	-	718,821
Excess (deficiency) of Revenues Over (Under) Expenditures	(15,479)	(19,164)	-	(12,363)	(22,475)	50,625	783	909	(17,164)
Other Financing Sources (Uses):									
Operating transfers in (out)	53,000		638,242	21,140					712,382
Net Other Financing Sources (Uses)	53,000	-	638,242	21,140	-	-	-	-	712,382
Net change in fund balances	37,521	(19,164)	638,242	8,777	(22,475)	50,625	783	909	695,218
Fund Balance, beginning	(30,587)	116,856	43,263	(9,769)	43,210	83,179	24,628	32,328	303,108
Fund Balance, ending	\$ 6,934	\$ 97,692	\$ 681,505	\$ (992)	\$ 20,735	\$ 133,804	\$ 25,411	\$ 33,237	\$ 998,326

See auditor's report on supplementary information.

SUPPLEMENTARY SCHEDULES

City of Commerce, Texas
Historical Schedule of Taxable Property Valuation
September 30, 2020 (Unaudited)

Tax Roll Year	Fiscal Year Ended September 30	Taxable Valuation
2019	2020	\$ 353,162,026
2018	2019	325,244,485
2017	2018	299,954,586
2016	2017	295,380,730
2015	2016	287,724,309
2014	2015	297,691,911
2013	2014	281,572,406
2012	2013	278,996,321
2011	2012	274,189,480
2010	2011	286,754,106

City of Commerce, Texas
Schedule of Delinquent Taxes Receivable
September 30, 2020 (Unaudited)

Tax Roll Year	Fiscal Year Ended September 30	Outstanding Balance
2019	2020	\$ 72,325
2018	2019	42,236
2017	2018	30,254
2016	2017	30,197
2015	2016	20,856
2014	2015	19,010
2013	2014	16,105
2012	2013	13,955
2011	2012	11,662
	2011 and prior	57,674
	Allowance for uncollectible tax	<u>(31,427)</u>
	Delinquent tax receivable, net	<u>\$ 282,847</u>

City of Commerce, Texas
Budgetary Comparison Schedule
Debt Service Fund
Year Ended September 30, 2020 (Unaudited)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Ad valorem taxes	\$ 610,348	\$ 610,348	\$ 712,783	\$ 102,435
Total Revenues	<u>610,348</u>	<u>610,348</u>	<u>712,783</u>	<u>102,435</u>
Expenditures:				
Debt Service:				
Principal	345,000	345,000	345,000	-
Interest and fiscal charges	255,348	255,348	253,848	1,500
Total Expenditures	<u>600,348</u>	<u>600,348</u>	<u>598,848</u>	<u>1,500</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>10,000</u>	<u>10,000</u>	<u>113,935</u>	<u>103,935</u>
Other Financing Sources (Uses):				
Operating transfers in (out)	-	-	(115,000)	(115,000)
Net Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(115,000)</u>	<u>(115,000)</u>
Net change in fund balances	10,000	10,000	(1,065)	(11,065)
Fund balance, October 1	60,824	60,824	60,824	-
Fund balance, September 30	<u><u>\$ 70,824</u></u>	<u><u>\$ 70,824</u></u>	<u><u>\$ 59,759</u></u>	<u><u>\$ (11,065)</u></u>