

CITY OF GILMER, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Introductory Section

This page is left blank intentionally.

City of Gilmer, Texas
Annual Financial Report
For The Year Ended September 30, 2016

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
List of Principal Officials.....	4	
FINANCIAL SECTION		
Independent Auditors' Report.....	7	
Management's Discussion and Analysis (Required Supplementary Information).....	9	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	17	A-1
Statement of Activities.....	18	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	20	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	23	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	24	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	26	A-6
Statement of Net Position - Proprietary Funds.....	27	A-7
Statement of Revenues, Expenses, and Changes in		
Fund Net Position -Proprietary Funds.....	28	A-8
Statement of Cash Flows - Proprietary Funds.....	29	A-9
Notes to the Financial Statements	30	
<u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	54	B-1
Economic Development Fund.....	55	B-2
Debt Service Fund.....	56	B-3
Schedule of the City's Proportionate Share of the		
Net Pension Liability - Texas Municipal Retirement System.....	57	B-4
Schedule of City's Contributions - Texas Municipal Retirement System.....	58	B-5
Schedule of the City's Proportionate Share of the		
Net Pension Liability - Texas Emergency Services Retirement System.....	59	B-6
Schedule of City's Contributions - Texas Emergency Services Retirement System.....	60	B-7
OTHER SUPPLEMENTARY INFORMATION SECTION		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63	
Schedule of Findings and Questioned Costs	65	
Summary Schedule of Prior Audit Findings.....	66	
Corrective Action Plan.....	67	

CITY OF GILMER, TEXAS
LIST OF PRINCIPAL OFFICIALS
SEPTEMBER 30, 2016

Elected Officials

<u>Name</u>	<u>Office</u>
Tim Marshall	Mayor
William Hornsby	Mayor Pro Tem
Jose Cavazos	Council Member
Wes Wilson	Council Member
Brenda Jeffrey	Council Member
Michael Chevalier	Council Member
Jarom Tefteller	Council Member

Appointed Officials

<u>Name</u>	<u>Position</u>
Jeff Ellington	City Manager
Kathy Hoover	City Secretary
Glenna Williams	Director of Finance

Financial Section

This page is left blank intentionally.

KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

P.O. Box 3167
Longview, Texas 75606

1501 Colony Circle
Longview, Texas 75604

Phone: 903-238-8822

Fax: 903-238-9838

Karen A. Jacks, CPA, CGMA
Peggy J. Lantz, CPA

Sherry Davis, CPA
Chanie A. Johnson, CPA

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Gilmer, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas ("the City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilmer, Texas as of September 30, 2016, 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.

Emphasis of Matter

Changes in Accounting Principles

As described in Note A to the financial statements, in 2016, City of Gilmer, Texas adopted new accounting guidance as follows:

- Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.
- Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.
- Governmental Accounting Standards Board Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

Our opinion is not modified with respect to these matters.

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 the City's proportionate share of the net pension liability and schedule of City pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017 on our consideration of City of Gilmer, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gilmer, Texas' internal control over financial reporting and compliance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
March 23, 2017

City of Gilmer, Texas

Management's Discussion and Analysis

For Year Ended September 30, 2016

As management of the City of Gilmer, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information in the City's financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The City of Gilmer's assets and deferred outflows of resources at September 30, 2016 totaled \$36,679,293 compared to its liabilities and deferred inflows of resources of \$17,636,581; the excess of assets over liabilities (net position) was \$19,042,712. However, with the recognition of net pension liability and the adjustments from deferred inflows and outflows related to pensions, total net position increased over last year's by \$209,295, or 1.09% compared to the net position at September 30, 2015.
- During the year ended September 30, 2016, the City continued use of the Combined Tax and Revenue Certificates of Obligation Bonds, Series 2015 bond proceeds to fund the City's contractual obligations to be incurred in connection with constructing and improving the City's waterworks and sewer system including lift station improvements and expansion, and the construction of a new water well.
- During the year ended September 30, 2016, the City completed the purchase and installation of the new water meters. The total cost of this project was \$ 613,848 and was funded by the 2015 Combined Tax and Revenue C/O Bonds, Series 2015.
- During the year end September 30, 2016, the City commenced the construction of the repaving of 4 City streets including sewer improvements under one street. The contract for this construction including engineering was \$1,497,338. The repaving is complete except where 3 culverts were discovered during construction that need to be replaced. The culvert project is ongoing. An additional construction contract was entered into for the new culverts plus engineering of \$201,470. This project is also being funded by the 2015 Combined Tax and Revenue C/O Bonds, Series 2015.
- During the year ended September 30, 2015, the City entered into a contract for a seal coat project of 10-12 miles of City streets. Work on this project was completed in the year ended September 30, 2016. The total cost of this project was \$496,481. This project was funded with General Fund Reserves, the Capital Projects and Sanitation Funds.
- The City was also able to repave another Street at the same per foot contract price as the other four streets at a total cost of \$157,874. This project was funded with General Fund Reserves.
- During the year ended September 30, 2016, the City completed the remodel of the new police station and the police department moved. The old police station will be offered for sale.

- The General Fund revenues were \$3,188,722 with expenditures of \$5,182,886. There were also net transfers into the General Fund from other funds of \$464,888, which resulted in a decrease of fund balance of \$1,529,276. At September 30, 2016 the General Fund had a fund balance of \$1,462,216.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The City maintains three major governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Economic Development and Debt Service funds. Data from the other non-major funds are combined into a single, aggregated presentation.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water & Sewer and Sanitation funds since they are considered to be major funds of the City. The Airport fund is also included as an Enterprise fund, but is maintained separately.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Gilmer, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,042,712, as of September 30, 2016, an increase of \$209,295 from the previous year.

The largest portion of the City's net position, 86%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GILMER'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 4,195,720	\$ 2,833,453	\$ 3,970,152	\$ 3,159,462	\$ 8,165,872	\$ 5,992,915
Capital assets	10,588,357	11,560,829	17,974,126	18,000,395	28,562,483	29,561,224
Total assets	<u>14,784,077</u>	<u>14,394,282</u>	<u>21,944,278</u>	<u>21,159,857</u>	<u>36,728,355</u>	<u>35,554,139</u>
Deferred outflows related to pensions	229,579	540,514	42,128	107,813	271,707	648,327
Loss on defeasance of debt	-	-	513,871	476,827	513,871	476,827
Total deferred outflows of resources	<u>229,579</u>	<u>540,514</u>	<u>555,999</u>	<u>584,640</u>	<u>785,578</u>	<u>1,125,154</u>
Current liabilities	621,446	621,948	1,475,955	909,632	2,097,401	1,531,580
Noncurrent liabilities, due in more than one year	6,518,280	6,612,116	9,944,007	9,405,761	16,462,287	16,017,877
Total liabilities	<u>7,139,726</u>	<u>7,234,064</u>	<u>11,419,962</u>	<u>10,315,393</u>	<u>18,559,688</u>	<u>17,549,457</u>
Deferred inflows related to pensions	<u>102,079</u>	<u>72,313</u>	<u>18,749</u>	<u>14,811</u>	<u>120,828</u>	<u>87,124</u>
Net position:						
Capital assets	6,712,916	6,702,490	9,885,063	9,664,965	16,597,979	16,367,455
Restricted	2,551,895	1,501,965	108,512	109,517	2,660,407	1,611,482
Unrestricted	(1,492,960)	(576,036)	1,067,991	1,639,811	(424,969)	1,063,775
Total net position	<u>\$ 7,771,851</u>	<u>\$ 7,628,419</u>	<u>\$ 11,061,566</u>	<u>\$ 11,414,293</u>	<u>\$ 18,833,417</u>	<u>\$ 19,042,712</u>

Analysis of the City's Operations- Overall the City had an increase in net position of \$209,295. Governmental activities decreased the net position by \$143,432 and net position from business-type activities increased by \$352,727.

The following table provides a summary of the City's operations for the years ended September 30, 2016 and 2015.

CITY OF GILMER'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
REVENUES:						
PROGRAM REVENUES:						
Charges for services	\$ 400,584	\$ 386,407	\$ 2,772,382	\$ 2,840,434	3,172,966	3,226,841
Operating grants & contributions	-	1,831	6,420	-	6,420	1,831
Capital grants & contributions	29,000	100,000	141,668	600,503	170,668	700,503
GENERAL REVENUES:						
Property taxes, levied for general purposes	1,109,691	1,182,129	-	-	1,109,691	1,182,129
Property taxes, levied for debt services	593,646	604,413	-	-	593,646	604,413
Sales taxes	1,001,979	1,069,030	-	-	1,001,979	1,069,030
Sales taxes for Economic Development	500,990	533,044	-	-	500,990	533,044
Franchise fees	338,410	318,245	-	-	338,410	318,245
Other taxes	56,214	61,625	-	-	56,214	61,625
Penalty and interest	14,182	24,188	-	-	14,182	24,188
Miscellaneous revenue	68,479	62,740	-	-	68,479	62,740
Investment earnings	18,048	23,074	12,146	11,719	30,194	34,793
Loss on sale of equipment	(46,375)	-	-	(563,485)	(46,375)	(563,485)
Transfers in (out)	618,157	64,628	(618,157)	(64,628)	-	-
TOTAL REVENUES	4,703,005	4,431,354	2,314,459	2,824,543	7,017,464	7,255,897
EXPENSES:						
Legislative	34,075	31,401	-	-	34,075	31,401
Municipal court	107,479	99,089	-	-	107,479	99,089
Executive/administration	402,241	439,895	-	-	402,241	439,895
Community development	191,749	180,719	-	-	191,749	180,719
Financial administration	193,807	183,968	-	-	193,807	183,968
Police	1,444,778	1,476,138	-	-	1,444,778	1,476,138
Fire protection	623,093	674,310	-	-	623,093	674,310
Highways and streets	459,204	899,680	-	-	459,204	899,680
Civic center	169,737	185,372	-	-	169,737	185,372
Non departmental	291,159	193,396	-	-	291,159	193,396
Interest & fiscal agent fees	237,449	210,818	-	-	237,449	210,818
Water & sewer	-	-	1,703,410	1,754,049	1,703,410	1,754,049
Sanitation	-	-	652,295	644,852	652,295	644,852
Airport	-	-	69,340	72,915	69,340	72,915
TOTAL EXPENSES	4,154,771	4,574,786	2,425,045	2,471,816	6,579,816	7,046,602
CHANGES IN NET POSITION	548,234	(143,432)	(110,586)	352,727	437,648	209,295
NET POSITION - BEGINNING	8,245,025	7,771,851	11,365,525	11,061,566	19,610,550	18,833,417
PRIOR PERIOD ADJUSTMENT	(1,021,408)	-	(193,373)	-	(1,214,781)	-
NET POSITION - ENDING	\$ 7,771,851	\$ 7,628,419	\$ 11,061,566	\$ 11,414,293	\$ 18,833,417	\$ 19,042,712

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City of Gilmer's governmental funds reported combined ending fund balances of \$2,420,099 which is a decrease of \$1,365,673 from last fiscal year's balance of \$3,485,772. Of the current balance, \$801,510 constitutes unrestricted fund balance. The remainder of the fund balance is restricted by statute or its providers, such as bondholders (\$832,189), construction (\$529,501) or has been assigned by the City to express intent for a narrower purpose than general government obligations (\$256,899) and to indicate that it is not available for new spending because it has already been obligated for debt service or other restricted purposes, or assigned a specific City initiative.

Proprietary funds- The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the respective proprietary funds are Water and Sewer- \$1,409,790, Sanitation- \$173,135 and Airport \$56,886.

CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2016 amounts to \$29,561,224 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery & equipment and construction in progress.

Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Land	\$ 6,330,697	\$ 6,330,697	\$ 4,525,164	\$ 4,525,164	\$ 10,855,861	\$ 10,855,861
Infrastructure	820,857	1,875,280	7,886,985	8,020,056	8,707,842	9,895,336
Buildings	2,415,846	2,534,774	731,142	714,849	3,146,988	3,249,623
Improvements, other than buildings	-	-	3,819,659	3,738,332	3,819,659	3,738,332
Machinery & equipment	781,341	801,078	382,848	245,781	1,164,189	1,046,859
Construction in progress	239,616	19,000	628,331	756,213	867,947	775,213
Total	\$ 10,588,357	\$ 11,560,829	\$ 17,974,129	\$ 18,000,395	\$ 28,562,486	\$ 29,561,224

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$14,875,000. Of this amount, \$1,705,772 comprises bonded debt backed by the full faith and credit of the government, while \$7,820,000 represents bonds secured solely by water and sewer revenues and \$1,649,228 represents Combination Tax and Revenue Certificates of Obligation which are secured by tax receipts as well as water and sewer revenue. The remainder amount of \$3,700,000 does not constitute an obligation of the City of Gilmer, but is reported herein as an obligation of its component unit, Gilmer Economic Development Corporation.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Revenue Bonds Payable	\$ -	\$ -	\$ 8,315,000	\$ 7,820,000	\$ 8,315,000	\$ 7,820,000
Tax & Revenue CO	1,810,000	1,705,772	1,750,000	1,649,228	3,560,000	3,355,000
Premium (discount) on issuance of debt	40,179	36,831	282,712	261,120	322,891	297,951
Sub-total	<u>1,850,179</u>	<u>1,742,603</u>	<u>10,347,712</u>	<u>9,730,348</u>	<u>12,197,891</u>	<u>11,472,951</u>
Sales & Tax Revenue Bonds	3,850,000	3,700,000	-	-	3,850,000	3,700,000
Premium (discount) on issuance of debt	(18,995)	(17,932)	-	-	(18,995)	(17,932)
Sub-total	<u>3,831,005</u>	<u>3,682,068</u>	<u>-</u>	<u>-</u>	<u>3,831,005</u>	<u>3,682,068</u>
Total	<u>\$ 5,681,184</u>	<u>\$ 5,424,671</u>	<u>\$ 10,347,712</u>	<u>\$ 9,730,348</u>	<u>\$ 16,028,896</u>	<u>\$ 15,155,019</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2016-2017, budget and rates. Sales tax receipts had shown an increase in fiscal year 2015-2016 over the previous three years. The city collected taxes on beer and wine sales but the total for the year was not material. The property tax rate for 2016-2017 increased to .629523/\$100 which is the effective rate.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City's business office at City of Gilmer, 110 Buffalo, Gilmer, Texas, 75644.

Basic Financial Statements

This page is left blank intentionally.

CITY OF GILMER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 2,882,343	\$ 823,078	\$ 3,705,421
Investments	558,707	892,567	1,451,274
Receivables (net of allowance for uncollectibles):			
Taxes	270,520	--	270,520
Accounts	--	401,876	401,876
Notes	24,532	--	24,532
Other	81,217	34,322	115,539
Internal balances	(991,228)	991,228	--
Prepaid expenses	7,362	16,391	23,753
Capital assets (net of accumulated depreciation):			
Land	6,330,697	4,525,164	10,855,861
Construction in progress	19,000	756,213	775,213
Infrastructure	1,875,282	11,758,389	13,633,671
Buildings and improvements	2,534,774	714,849	3,249,623
Furniture and equipment	801,076	245,780	1,046,856
Total assets	<u>14,394,282</u>	<u>21,159,857</u>	<u>35,554,139</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to pensions	540,514	107,813	648,327
Loss on defeasance of debt	--	476,827	476,827
Total deferred outflows	<u>540,514</u>	<u>584,640</u>	<u>1,125,154</u>
LIABILITIES:			
Accounts payable	72,265	68,446	140,711
Accrued wages	38,931	8,232	47,163
Other liabilities	878	--	878
Accrual for compensated absences	178,520	24,009	202,529
Accrued interest payable	41,332	79,342	120,674
Unearned revenue	4,500	1,200	5,700
Customer deposits	8,500	110,425	118,925
Noncurrent liabilities:			
Due within one year	277,022	617,978	895,000
Due in more than one year	5,147,649	9,112,371	14,260,020
Net pension liability	1,464,467	293,390	1,757,857
Total liabilities	<u>7,234,064</u>	<u>10,315,393</u>	<u>17,549,457</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pensions	72,313	14,811	87,124
Total deferred inflows	<u>72,313</u>	<u>14,811</u>	<u>87,124</u>
NET POSITION:			
Net investment in capital assets	6,702,490	9,664,965	16,367,455
Restricted For:			
Debt service	790,857	109,517	900,374
Capital projects	529,501	--	529,501
Other purposes	181,607	--	181,607
Unrestricted	(576,036)	1,639,811	1,063,775
Total net position	<u>\$ 7,628,419</u>	<u>\$ 11,414,293</u>	<u>\$ 19,042,712</u>

The accompanying notes are an integral part of this statement.

CITY OF GILMER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
Legislative	\$ 31,401	\$ --	\$ --	\$ --
Municipal court	99,089	--	--	--
Executive/administration	439,895	--	--	--
Community development	180,719	--	--	--
Financial administration	183,968	26,856	--	--
Police	1,476,138	240,064	1,831	--
Fire protection	674,310	73,540	--	100,000
Highways and streets	899,680	--	--	--
Civic center	185,372	45,947	--	--
Non-departmental	193,396	--	--	--
Interest and fiscal agent fees	210,818	--	--	--
Total Governmental Activities	4,574,786	386,407	1,831	100,000
Business-type Activities:				
Water and sewer	1,754,049	2,010,266	--	--
Sanitation	644,852	755,709	--	--
Airport	72,915	74,459	--	600,503
Total Business-type Activities	2,471,816	2,840,434	--	600,503
Total Primary Government	\$ 7,046,602	\$ 3,226,841	\$ 1,831	\$ 700,503

General Revenues:
Property taxes levied for general purposes
Property taxes levied for debt service
Sales taxes
Sales taxes for Economic Development
Franchise fees
Other taxes
Penalty and interest
Investment earnings
Miscellaneous
Loss on asset disposition
Transfers in (out)
Total General Revenues and Transfers

Change in Net Position
Net Position - Beginning
Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (31,401)		\$ (31,401)
(99,089)		(99,089)
(439,895)		(439,895)
(180,719)		(180,719)
(157,112)		(157,112)
(1,234,243)		(1,234,243)
(500,770)		(500,770)
(899,680)		(899,680)
(139,425)		(139,425)
(193,396)		(193,396)
(210,818)		(210,818)
<u>(4,086,548)</u>		<u>(4,086,548)</u>
	\$ 256,217	256,217
	110,857	110,857
	602,047	602,047
	<u>969,121</u>	<u>969,121</u>
<u>(4,086,548)</u>	<u>969,121</u>	<u>(3,117,427)</u>
1,182,129	--	1,182,129
604,413	--	604,413
1,069,030	--	1,069,030
533,044	--	533,044
318,245	--	318,245
61,625	--	61,625
24,188	--	24,188
23,074	11,719	34,793
62,740	--	62,740
--	(563,485)	(563,485)
64,628	(64,628)	--
<u>3,943,116</u>	<u>(616,394)</u>	<u>3,326,722</u>
(143,432)	352,727	209,295
7,771,851	11,061,566	18,833,417
<u>\$ 7,628,419</u>	<u>\$ 11,414,293</u>	<u>\$ 19,042,712</u>

CITY OF GILMER, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Economic Development Fund
ASSETS:		
Cash and cash equivalents	\$ 2,324,207	\$ 407,102
Investments	206,429	352,278
Receivables:		
Taxes	270,520	--
Due from other funds	--	41,507
Notes receivable	--	--
Other receivable	25,768	--
Prepaid expenditures	7,362	--
TOTAL ASSETS	<u>\$ 2,834,286</u>	<u>\$ 800,887</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 69,511	\$ --
Due to other funds	1,026,463	6,271
Unearned revenue	4,500	--
Other liabilities	878	--
Accrued wages	38,005	--
Accrual for compensated absences	91,981	--
TOTAL LIABILITIES	<u>1,231,338</u>	<u>6,271</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred property tax revenue	140,732	--
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>140,732</u>	<u>--</u>
FUND BALANCE:		
Nonspendable	7,362	--
Restricted for debt service	--	794,616
Restricted for other purposes	55,913	--
Restricted for construction	529,501	--
Assigned	67,930	--
Unassigned	801,510	--
TOTAL FUND BALANCE	<u>1,462,216</u>	<u>794,616</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 2,834,286</u>	<u>\$ 800,887</u>

EXHIBIT A-3

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 37,573	\$ 113,461	\$ 2,882,343
--	--	558,707
--	--	270,520
--	--	41,507
--	24,532	24,532
--	--	25,768
--	--	7,362
<u>\$ 37,573</u>	<u>\$ 137,993</u>	<u>\$ 3,810,739</u>
\$ --	\$ 2,754	\$ 72,265
--	--	1,032,734
--	--	4,500
--	8,500	9,378
--	926	38,931
--	119	92,100
<u>--</u>	<u>12,299</u>	<u>1,249,908</u>
--	--	140,732
<u>--</u>	<u>--</u>	<u>140,732</u>
--	--	7,362
37,573	--	832,189
--	125,694	181,607
--	--	529,501
--	--	67,930
--	--	801,510
<u>37,573</u>	<u>125,694</u>	<u>2,420,099</u>
<u>\$ 37,573</u>	<u>\$ 137,993</u>	<u>\$ 3,810,739</u>

This page is left blank intentionally.

CITY OF GILMER, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016

Total fund balances - governmental funds balance sheet	\$ 2,420,099
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	11,560,829
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	140,732
Payables for bond principal which are not due in the current period are not reported in the funds.	(5,405,773)
Payables for bond interest which are not due in the current period are not reported in the funds.	(41,332)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(86,420)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	55,449
Unamortized discounts on issuance of bonds are not reported in the funds.	17,932
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(1,464,467)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(72,313)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	540,514
Bond premiums are amortized in the SNA but not in the funds.	<u>(36,831)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 7,628,419</u>

The accompanying notes are an integral part of this statement.

CITY OF GILMER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Economic Development Fund
REVENUES:		
Property taxes	\$ 1,200,079	\$ --
Penalty and interest	24,188	--
Sales tax	1,069,030	533,044
Franchise fees	318,246	--
Other taxes	61,625	--
Fines and forfeitures	231,060	--
Licenses and permits	26,856	--
Intergovernmental revenue and grants	73,540	--
Investment income	16,656	4,767
Rents and royalties	5,462	--
Grant revenue	101,831	--
Other revenue	60,149	--
TOTAL REVENUES	<u>3,188,722</u>	<u>537,811</u>
EXPENDITURES:		
Legislative	26,940	--
Municipal court	86,969	--
Executive/administration	392,383	--
Community development	166,289	--
Financial administration	156,835	--
Police	1,350,297	--
Fire protection	692,493	--
Highways and streets	2,116,784	--
Parks	500	--
Civic center	--	--
Non-departmental	193,396	--
Debt service -principal	--	150,000
-interest	--	178,075
-fees	--	750
TOTAL EXPENDITURES	<u>5,182,886</u>	<u>328,825</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,994,164)	208,986
OTHER FINANCING SOURCES (USES):		
Transfers in	674,992	--
Transfers out	(210,104)	(80,002)
TOTAL OTHER FINANCING SOURCES (USES)	<u>464,888</u>	<u>(80,002)</u>
NET CHANGE IN FUND BALANCES	(1,529,276)	128,984
FUND BALANCES - BEGINNING	2,991,492	665,632
FUND BALANCES - ENDING	<u>\$ 1,462,216</u>	<u>\$ 794,616</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-5

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 604,413	\$ --	\$ 1,804,492
--	--	24,188
--	--	1,602,074
--	--	318,246
--	--	61,625
--	4,150	235,210
--	--	26,856
--	--	73,540
304	1,348	23,075
--	40,486	45,948
--	--	101,831
--	2,591	62,740
<u>604,717</u>	<u>48,575</u>	<u>4,379,825</u>
--	--	26,940
--	--	86,969
--	--	392,383
--	--	166,289
--	--	156,835
--	580	1,350,877
--	--	692,493
--	--	2,116,784
--	--	500
--	137,523	137,523
--	--	193,396
104,228	--	254,228
54,259	--	232,334
1,825	--	2,575
<u>160,312</u>	<u>138,103</u>	<u>5,810,126</u>
444,405	(89,528)	(1,430,301)
--	100,446	775,438
(420,703)	--	(710,809)
<u>(420,703)</u>	<u>100,446</u>	<u>64,629</u>
23,702	10,918	(1,365,672)
13,871	114,776	3,785,771
<u>\$ 37,573</u>	<u>\$ 125,694</u>	<u>\$ 2,420,099</u>

CITY OF GILMER, TEXAS
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balances - total governmental funds	\$ (1,365,672)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,611,966
The depreciation of capital assets used in governmental activities is not reported in the funds.	(639,494)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(17,952)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	254,228
(Increase) decrease in accrued interest from beginning of period to end of period.	21,805
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	16,991
Revenues in the SOA for court fines not providing current financial resources are not reported in the funds.	4,852
Bond premiums are amortized in the SOA but not in the funds.	3,348
Bond discounts are amortized in the SOA but not in the funds.	(1,063)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPL.	173,371
The City's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(57,053)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(148,760)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (143,433)</u>

The accompanying notes are an integral part of this statement.

CITY OF GILMER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total Proprietary Funds
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 615,033	\$ 48,662	\$ 49,208	\$ 712,903
Investments	892,567	--	--	892,567
Receivables (net of allowances for uncollectibles):	274,198	124,828	--	399,026
Other receivable	34,172	--	3,000	37,172
Prepaid expenses	10,922	--	5,469	16,391
Due from other funds	924,363	66,865	--	991,228
Total Current Assets	<u>2,751,255</u>	<u>240,355</u>	<u>57,677</u>	<u>3,049,287</u>
Noncurrent Assets:				
Restricted assets:				
Cash and cash equivalents	110,175	--	--	110,175
Capital assets:				
Land	4,266,667	230,484	28,013	4,525,164
Construction in progress	15,010	--	741,203	756,213
Land improvements	3,558,647	--	1,553,244	5,111,891
Infrastructure	14,223,265	--	--	14,223,265
Buildings	129,125	--	815,817	944,942
Equipment and furniture	643,894	--	128,914	772,808
Less accumulated depreciation	(7,794,744)	--	(539,144)	(8,333,888)
Total Noncurrent Assets	<u>15,152,039</u>	<u>230,484</u>	<u>2,728,047</u>	<u>18,110,570</u>
TOTAL ASSETS	<u>17,903,294</u>	<u>470,839</u>	<u>2,785,724</u>	<u>21,159,857</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows related to pensions	106,391	1,422	--	107,813
Loss on defeasance of debt	476,827	--	--	476,827
TOTAL OUTFLOWS OF RESOURCES	<u>583,218</u>	<u>1,422</u>	<u>--</u>	<u>584,640</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	6,859	61,046	541	68,446
Wages payable	8,232	--	--	8,232
Accrual for compensated absences	24,009	--	--	24,009
Accrued interest payable	79,342	--	--	79,342
Unearned revenue	1,200	--	--	1,200
Customer deposits	110,175	--	250	110,425
Bonds, notes, and loans payable	617,978	--	--	617,978
Total Current Liabilities	<u>847,795</u>	<u>61,046</u>	<u>791</u>	<u>909,632</u>
Noncurrent Liabilities:				
Bonds, notes, and loans payable	9,112,371	--	--	9,112,371
Net pension liability	286,427	6,963	--	293,390
Total Noncurrent Liabilities	<u>9,398,798</u>	<u>6,963</u>	<u>--</u>	<u>9,405,761</u>
TOTAL LIABILITIES	<u>10,246,593</u>	<u>68,009</u>	<u>791</u>	<u>10,315,393</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to pensions	14,178	633	--	14,811
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>14,178</u>	<u>633</u>	<u>--</u>	<u>14,811</u>
NET POSITION:				
Net investment in capital assets	6,706,434	230,484	2,728,047	9,664,965
Restricted for debt service	109,517	--	--	109,517
Unrestricted	1,409,790	173,135	56,886	1,639,811
TOTAL NET POSITION	<u>\$ 8,225,741</u>	<u>\$ 403,619</u>	<u>\$ 2,784,933</u>	<u>\$ 11,414,293</u>

The accompanying notes are an integral part of this statement.

CITY OF GILMER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total Proprietary Funds
OPERATING REVENUES:				
Charges for water services	\$ 1,196,205	\$ --	\$ --	\$ 1,196,205
Charges for sewerage services	680,381	--	--	680,381
Charges for sanitation services	--	745,756	--	745,756
Penalties	26,897	9,524	--	36,421
Rents and royalties	14,400	--	74,311	88,711
Other revenue	92,383	429	148	92,960
Total Operating Revenues	<u>2,010,266</u>	<u>755,709</u>	<u>74,459</u>	<u>2,840,434</u>
OPERATING EXPENSES:				
Salaries and employee benefits	515,881	1,283	--	517,164
Contractual services	64,509	643,569	7,876	715,954
Utilities	153,174	--	9,041	162,215
Repairs and maintenance	262,802	--	4,000	266,802
Supplies and other expenses	71,643	--	115	71,758
Insurance	25,656	--	3,317	28,973
Depreciation	334,569	--	48,566	383,135
Total Operating Expenses	<u>1,428,234</u>	<u>644,852</u>	<u>72,915</u>	<u>2,146,001</u>
Operating Income	<u>582,032</u>	<u>110,857</u>	<u>1,544</u>	<u>694,433</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest and investment revenue	11,430	215	74	11,719
Operating grants	--	--	600,503	600,503
Loss on disposition of assets	(563,486)	--	--	(563,486)
Interest expense	(309,613)	--	--	(309,613)
Debt issuance costs and fees	(16,202)	--	--	(16,202)
Total Non-operating Revenues (Expenses)	<u>(877,871)</u>	<u>215</u>	<u>600,577</u>	<u>(277,079)</u>
Income (Loss) before Transfers	<u>(295,839)</u>	<u>111,072</u>	<u>602,121</u>	<u>417,354</u>
TRANSFERS:				
Transfers in	610,364	--	--	610,364
Transfers out	<u>(569,384)</u>	<u>(105,607)</u>	<u>--</u>	<u>(674,991)</u>
Change in Net Position	<u>(254,859)</u>	<u>5,465</u>	<u>602,121</u>	<u>352,727</u>
Total Net Position - Beginning	8,480,600	398,154	2,182,812	11,061,566
Total Net Position - Ending	<u>\$ 8,225,741</u>	<u>\$ 403,619</u>	<u>2,784,933</u>	<u>\$ 11,414,293</u>

The accompanying notes are an integral part of this statement.

CITY OF GILMER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
Cash Flows from Operating Activities:				
Cash received from customers	\$ 1,994,786	\$ 744,333	\$ 71,459	\$ 2,810,578
Cash payments to employees for services	(513,827)	(2,008)	--	(515,835)
Cash payments to other suppliers for goods and services	(567,898)	(644,313)	(30,400)	(1,242,611)
Net Cash Provided by Operating Activities	<u>913,061</u>	<u>98,012</u>	<u>41,059</u>	<u>1,052,132</u>
Cash Flows from Non-capital Financing Activities:				
Transfers from (to) other funds	799,006	(105,607)	--	693,399
Net Cash Provided (Used) by Non-capital Financing Activities	<u>799,006</u>	<u>(105,607)</u>	<u>--</u>	<u>693,399</u>
Cash Flows from Capital and Related Financing Activities:				
Principal and interest paid	(911,096)	--	--	(911,096)
Capital grants received	--	--	600,503	600,503
Acquisition or construction of capital assets	(847,928)	--	(661,781)	(1,509,709)
Proceeds from sale of capital assets	9,900	--	--	9,900
Net Cash Used for Capital & Related Financing Activities	<u>(1,749,124)</u>	<u>--</u>	<u>(61,278)</u>	<u>(1,810,402)</u>
Cash Flows from Investing Activities:				
Interest on investments	8,835	215	74	9,124
Net Cash Provided by Investing Activities	<u>8,835</u>	<u>215</u>	<u>74</u>	<u>9,124</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(28,222)	(7,380)	(20,145)	(55,747)
Cash and Cash Equivalents at Beginning of Year	643,254	56,042	69,353	768,649
Cash and Cash Equivalents at End of Year	<u>\$ 615,032</u>	<u>\$ 48,662</u>	<u>\$ 49,208</u>	<u>\$ 712,902</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	\$ 582,032	\$ 110,857	\$ 1,544	\$ 694,433
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	334,569	--	48,566	383,135
Change in Assets and Liabilities:				
Decrease (Increase) in receivables	32,042	(11,376)	(3,000)	17,666
Increase (Decrease) in accounts payable	(13,510)	(744)	(582)	(14,836)
Increase (Decrease) in accrued wages payable	(15,422)	(725)	--	(16,147)
Increase (Decrease) in pension liabilities	17,472	--	--	17,472
Increase (Decrease) in unearned revenue	(13,200)	--	--	(13,200)
Increase (Decrease) in prepaid expenses	(10,922)	--	(5,469)	(16,391)
Total Adjustments	<u>331,029</u>	<u>(12,845)</u>	<u>39,515</u>	<u>357,699</u>
Net Cash Provided by Operating Activities	<u>\$ 913,061</u>	<u>\$ 98,012</u>	<u>\$ 41,059</u>	<u>\$ 1,052,132</u>

The accompanying notes are an integral part of this statement.

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

A. Summary of Significant Accounting Policies

The combined financial statements of City of Gilmer, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's "Codifications of Governmental Accounting and Financial Reporting Standards", include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. The GASB Codification requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the following is a brief review of the component unit addressed in defining the government's reporting entity. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Codification.

Blended Component Unit

The Economic Development Corporation has been determined to be a blended component unit of the City. The board of the Economic Development Corporation (EDC) is appointed by the City Council. The EDC is funded by a one-half cent sales tax to promote economic growth in the City. It is included in the financial statements as a special revenue fund (Economic Development Fund). There are no separate financial statements issued. All sales tax revenues produced by the EDC are pledged to debt service on Sales Tax Revenue Bonds.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities.

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting those definitions are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The Debt Service Fund accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Economic Development Fund is a special revenue fund that accounts for the one-half cent sales tax collected for the Economic Development Corporation, a component unit.

The City reports the following major proprietary funds:

The Water and Sewer Fund is used to account for the sale of water and wastewater treatment by the City to businesses and residential customers and to surrounding communities.

The Sanitation Fund accounts for residential and commercial solid waste collections and disposal services for the City.

The Airport Fund accounts for the operation of the Gilmer-Upshur County Airport.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The City may assess penalties and interest. The assessment ratio of the City is 100% of market value. The assessed value for the roll of October 1, 2015, upon which the 2016 fiscal-year levy was based, was \$286,688,905. The tax assessment of October 1, 2015 sets a tax levy at \$625178 per \$100 of assessed valuation at 100% of assumed market value. The 2016 fiscal year tax levy was \$1,792,316.

Taxes were due in January following the October 1 statement date. Tax collections during the fiscal year ended September 30, 2016, for the fiscal 2015 tax levy were 97.13% of the total tax levy for that year.

Delinquent taxes as of September 30, 2016, were \$303,673.

Allowances for uncollectible tax receivables are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for uncollectible taxes at September 30, 2016 is \$162,941.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in government-wide financial statements and in the fund financial statements for proprietary funds. All

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

capital assets are value at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are value at their estimated fair value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Assets capitalized have an original cost of \$5,000 or more and an estimated life in excess of one year. Depreciation has been computed on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25 - 50
Buildings	10 - 60
Land improvements	60 - 100
Machinery and equipment	5 - 12
Heavy equipment	10 - 20
Vehicles	4 - 7
Computer equipment	3 - 5

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. 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 or 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.

g. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary fund Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense / expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

h. Compensated Absences

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay for

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

it. Accumulated vacation leave of proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

i. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

j. Estimates

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

k. Restricted Assets

Cash held for customer deposits in the Water and Sewer Fund is reported as restricted.

l. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself. The City Council has authorized the City's Director of Finance as the official authorized to assign fund balance to a specific purpose.