

CITY OF GILMER, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

**PRINCIPAL OFFICIALS**

SEPTEMBER 30, 2008

**CITY COUNCIL**

R.D. CROSS, MAYOR

WILLIAM HORNSBY, MAYOR PRO TEM

BRIAN WILLIAMS

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TEATHEL HOLLIS

SARA DUMAS

**CITY MANAGER**

JEFF ELLINGTON

**CITY SECRETARY**

KATHY DAVIDSON

**BUSINESS MANAGER**

TRACY OLLER

CITY OF GILMER, TEXAS  
 SEPTEMBER 30, 2008  
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**KAREN A. JACKS & ASSOCIATES, P.C.**  
Certified Public Accountants

Karen A. Jacks, CPA  
Peggy J. Lantz, CPA  
Sherry Davis, CPA

P.O. Box 3167  
Longview, Texas 75606

1501 Colony Circle  
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Gilmer, Texas

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, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 2009 on our consideration of the City of Gilmer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Gilmer, Texas' basic financial statements. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations" is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Karen A. Jacks & Associates, P.C.*

Karen A. Jacks & Associates, P.C.

Longview, Texas  
March 12, 2009

# City of Gilmer, Texas

## Management's Discussion and Analysis

For Year Ended September 30, 2008

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, 2008. We encourage readers to consider the information presented here in conjunction with additional information in the City's financial statements that follow this section. The City implemented Governmental Accounting Standards Board Statement 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the first time in fiscal year 2003-2004 audit report.

### FINANCIAL HIGHLIGHTS

- The City of Gilmer's assets at 9-30-08 totaled \$34,557,699.
- Total General Fund revenues were \$2,854,393 with expenditures of \$3,042,960. There were also transfers into the General Fund from Proprietary funds of \$1,373,764, transfers out of the General Fund for debt service of \$12,000, and special items of \$65,173 which resulted in a surplus of \$1,108,024.
- At September 30, 2008 the General Fund had a positive fund balance of \$312,213. This is an increase of \$1,108,024 from the Fiscal Year Ending September 30, 2007 deficit fund balance of \$795,811.

### 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 Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 main 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.

**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 assets may serve over time as a useful indicator of government's financial position. In the case of the City of Gilmer, net assets exceeded liabilities by \$15,043,478, a decrease of \$231,420 from the previous year.

The largest portion of the City's net assets, 72%, 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 ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and other assets	\$ 859,532	\$2,079,443	\$ 4,412,247	\$2,849,723	\$ 5,271,779	\$4,929,166
Capital Assets	7,023,758	7,163,500	23,745,000	22,465,033	30,768,758	29,628,533
<b>Total Assets</b>	<b>7,883,290</b>	<b>9,242,943</b>	<b>28,157,247</b>	<b>25,314,756</b>	<b>36,040,537</b>	<b>34,557,699</b>
Current Liabilities	288,748	290,205	890,098	438,602	1,175,846	728,807
Noncurrent Liabilities						
Due in More Than One Year	1,332,249	1,181,120	18,254,544	17,604,294	19,586,793	18,785,414
<b>Total Liabilities</b>	<b>1,620,997</b>	<b>1,471,325</b>	<b>19,144,642</b>	<b>18,042,896</b>	<b>20,765,639</b>	<b>19,514,221</b>
Net Assets:						
Invested in capital assets, Net of related debt	5,691,509	5,982,380	5,490,456	4,860,738	11,181,965	10,843,118
Restricted	1,371,499	1,457,933	540,355	275,523	1,911,854	1,733,456
Unrestricted	(800,715)	331,305	2,981,794	2,135,599	2,181,079	2,466,904
<b>Total Net Assets</b>	<b>6,262,293</b>	<b>7,771,618</b>	<b>9,012,605</b>	<b>7,271,860</b>	<b>15,274,898</b>	<b>15,043,478</b>



**Analysis of the City's Operations-** Overall the City had a decrease in net assets of \$231,420. Governmental activities increased the net assets by \$1,509,325. Net Assets from business-type activities decreased by \$1,740,405. However, \$2,186,285 of the decrease was attributable to a special item related to the disposition of certain infrastructure assets in an area of property that the City deannexed.

The following table provides a summary of the City's operations for the year ended September 30, 2008.

### CITY OF GILMER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>REVENUES:</b>						
<b>PROGRAM REVENUES:</b>						
Charges for services	\$ 359,894	\$ 401,693	\$ 2,784,039	\$ 2,904,726	\$ 3,143,933	\$ 3,306,419
Operating grants & contributions	6,049	25,269	0	0	6,049	25,269
Capital grants & contributions	207,419	334,360	1,298,311	852,731	1,505,730	1,187,091
<b>GENERAL REVENUES:</b>						
Property taxes, levied for general purposes	905,262	976,704	0	0	905,262	976,704
Property taxes, levied for debt services	573,532	573,961	0	0	573,532	573,961
Sales taxes	792,014	851,985	0	0	792,014	851,985
Sales tax for Economic Development	401,106	425,992	0	0	401,106	425,992
Franchise Taxes	223,312	229,166	0	0	223,312	229,166
Other Taxes	129,653	69,327	0	0	129,653	69,327
Penalty and Interest	17,325	21,100	0	0	17,325	21,100
Miscellaneous Revenue	97,162	172,928	0	0	97,162	172,928
Investment Earnings	34,269	34,826	107,932	60,153	142,201	94,979
Rents and Royalties	54,741	34,045	0	0	54,741	34,045
Sale of Equipment	57,739	13,165	0	(35,727)	57,739	(22,562)
Transfers In (Out)	(275,184)	605,468	275,184	(605,468)	0	0
<b>TOTAL REVENUES</b>	<b>\$3,584,293</b>	<b>\$4,769,989</b>	<b>\$ 4,465,466</b>	<b>\$3,176,415</b>	<b>\$8,849,759</b>	<b>\$7,946,404</b>
<b>EXPENSES:</b>						
Legislative	\$18,221	\$18,947	0	0	\$ 18,221	\$18,947
Municipal Court	67,894	61,093	0	0	67,894	61,093
Executive/Administration	248,462	261,361	0	0	248,462	261,361
Community Development	130,914	138,643	0	0	130,914	138,643
Financial Administration	119,986	133,733	0	0	119,986	133,733
Police	879,206	971,708	0	0	879,206	971,708
Fire Protection	367,807	365,610	0	0	367,807	365,610
Highways and Streets	372,508	373,772	0	0	372,508	373,772
Civic Center	135,580	119,884	0	0	135,580	119,884
Parks and Trails	48,526	(3,354)	0	0	48,526	(3,354)
Non Departmental	679,413	690,377	0	0	679,413	690,377
Interest & Fiscal Agent Fees	76,337	63,717	0	0	76,337	63,717
Water & Sewer	--	--	2,075,922	\$1,945,284	2,075,922	1,945,284
Sanitation	--	--	559,115	705,904	559,115	705,904
Airport	--	--	73,383	79,687	73,383	79,687
<b>TOTAL EXPENSES</b>	<b>\$3,144,854</b>	<b>\$3,195,491</b>	<b>\$ 2,708,420</b>	<b>\$2,730,875</b>	<b>\$ 5,853,274</b>	<b>\$5,926,366</b>
<b>SPECIAL ITEM</b>	<b>0</b>	<b>(65,173)</b>	<b>0</b>	<b>(2,186,285)</b>	<b>0</b>	<b>(2,251,458)</b>
<b>CHANGES IN NET ASSETS</b>	<b>439,439</b>	<b>1,509,325</b>	<b>1,757,046</b>	<b>(1,740,745)</b>	<b>2,196,485</b>	<b>(231,420)</b>
<b>NET ASSETS - BEGINNING</b>	<b>5,924,190</b>	<b>6,262,293</b>	<b>7,380,551</b>	<b>9,012,605</b>	<b>13,304,741</b>	<b>15,274,898</b>
<b>PRIOR YR ADJUSTMENTS</b>	<b>(101,336)</b>	<b>0</b>	<b>(124,992)</b>	<b>0</b>	<b>(226,328)</b>	<b>0</b>
<b>NET ASSETS - ENDING</b>	<b>\$6,262,293</b>	<b>\$7,771,618</b>	<b>\$9,012,605</b>	<b>\$7,271,860</b>	<b>\$15,274,898</b>	<b>\$15,043,078</b>

## 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 \$1,654,463, which is up from last fiscal year's balance of \$443,239 by \$1,211,224. A prior year deficit fund balance of \$795,811 in the General Fund was corrected in the current year by a \$1,316,245 transfer from the Water and Sewer Fund.

**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- \$1,597,279 and Sanitation- \$552,047.

**General Fund Budgetary Highlights-** The City made several revisions to the original budget during the year. At year-end, Total Revenues were under the budgeted amount by \$60,343 while Total Expenditures were under budget by \$149,678.

### CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2008 amounts to \$29,628,532 (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	
	2007	2008	2007	2008	2007	2008
Land	\$458,194	\$458,194	\$4,503,164	\$4,503,164	\$4,961,358	\$4,961,358
Infrastructure	1,907,501	1,971,623	6,504,077	6,397,341	8,411,578	8,368,964
Buildings	3,854,540	3,776,055	949,950	930,130	4,804,490	4,706,185
Improvements, other than bldgs	--	--	8,645,274	8,535,939	8,645,274	8,535,939
Machinery & Equip	795,360	841,807	52,291	170,391	847,651	1,012,198
Construction in Progress	8,163	115,821	1,953,469	816,278	1,961,632	932,099
Assets Under Capital Lease	--	--	1,136,775	1,111,791	1,136,775	1,111,791
<b>Total</b>	<b>\$7,023,758</b>	<b>\$7,163,500</b>	<b>\$23,745,000</b>	<b>\$22,465,034</b>	<b>\$ 30,768,758</b>	<b>\$29,628,534</b>

## DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$18,785,414. Of this amount, \$775,000 comprises bonded debt backed by the full faith and credit of the government, while \$10,540,000 represents bonds secured solely by water and sewer revenues and \$6,060,000 represents Combination Tax and Revenue Certificates of Obligation which are secured by tax receipts as well as water and sewer revenue. The remaining debt represents Notes Payable of \$935,510 and Capital Lease Obligations of \$474,904.

### Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
General Obligation Bonds	\$ 865,000	\$775,000	--	--	\$ 865,000	\$775,000
Notes Payable	467,249	406,120	\$ 608,596	\$529,390	1,075,845	935,510
Revenue Bonds Payable	--	--	10,820,000	10,540,000	10,820,000	10,540,000
Tax & Revenue CO	--	--	6,185,000	6,060,000	6,185,000	6,060,000
Capital Lease Obligation	--	--	640,949	474,904	640,949	474,904
<b>Total</b>	<b>\$ 1,332,249</b>	<b>\$ 1,181,120</b>	<b>\$ 18,254,545</b>	<b>\$17,604,294</b>	<b>\$ 19,586,794</b>	<b>\$18,785,414</b>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2008-2009 budget and rates. Sales tax receipts increased during the 2007-2008 fiscal year and continue to show signs of increase for the 2008-2009 fiscal year. The City's property tax rate for 2007-2008 was \$ .651710 per \$100 valuation. The property tax rate for 2008-2009 is set at \$ .6389/\$100.

The city has made a concerted effort to make appropriations for those items truly necessary.

## 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.

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BASIC FINANCIAL STATEMENTS

CITY OF GILMER, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 776,823	\$ 825,433	\$ 1,602,256
Investments	638,403	1,528,756	2,167,159
Receivables (net of allowance for uncollectibles):			
Taxes	323,717	-	323,717
Accounts	36,630	365,263	401,893
Other	171,011	-	171,011
Internal balances	132,859	(132,859)	-
Debt issuance costs, net of amortization	-	189,694	189,694
Discount on bond issuance	-	73,436	73,436
Capital assets (net of accumulated depreciation):			
Land and improvements	2,429,817	19,436,444	21,866,261
Buildings and improvements	3,776,055	930,130	4,706,185
Furniture and equipment	841,807	170,391	1,012,198
Assets under capital lease	-	1,111,791	1,111,791
Construction in progress	115,821	816,277	932,098
Total assets	<u>9,242,943</u>	<u>25,314,756</u>	<u>34,557,699</u>
<b>LIABILITIES</b>			
Accounts payable	82,186	68,241	150,427
Accrued expenses	75	-	75
Accrued wages	53,361	17,724	71,085
Accrual for compensated absences	110,661	11,482	122,143
Accrued interest payable	22,118	257,133	279,251
Customer deposits	-	84,022	84,022
Unearned revenue	21,804	-	21,804
Noncurrent liabilities:			
Due within one year	484,165	842,417	1,326,582
Due in more than one year	696,955	16,761,877	17,458,832
Total liabilities	<u>1,471,325</u>	<u>18,042,896</u>	<u>19,514,221</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,982,380	4,860,738	10,843,118
Restricted for debt service	1,005,113	275,523	1,280,636
Restricted for capital projects	27,736	-	27,736
Restricted for other purposes	425,084	-	425,084
Unrestricted	331,305	2,135,599	2,466,904
Total net assets	<u>\$ 7,771,618</u>	<u>\$ 7,271,860</u>	<u>\$ 15,043,478</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
<b>Governmental activities:</b>							
Legislative	\$ 18,947	\$ -	\$ -	\$ -	\$ (18,947)		\$ (18,947)
Municipal court	61,093	244,517	-	-	183,424		183,424
Executive/administration	261,361	-	-	-	(261,361)		(261,361)
Community development	138,643	-	-	-	(138,643)		(138,643)
Financial administration	133,733	-	-	-	(133,733)		(133,733)
Police	971,708	74,880	2,829	-	(893,999)		(893,999)
Fire protection	365,610	55,180	-	90,734	(219,696)		(219,696)
Highways and streets	373,772	-	22,440	157,500	(193,832)		(193,832)
Civic center	119,884	27,116	-	-	(92,768)		(92,768)
Parks and trails	(3,354)	-	-	86,126	89,480		89,480
Non-departmental	690,377	-	-	-	(690,377)		(690,377)
Interest and fiscal agent fees	63,717	-	-	-	(63,717)		(63,717)
<b>Total governmental activities</b>	<b>3,195,491</b>	<b>401,693</b>	<b>25,269</b>	<b>334,360</b>	<b>(2,434,169)</b>		<b>(2,434,169)</b>
<b>Business-type activities:</b>							
Water and sewer	1,945,284	2,072,030	-	624,165		\$ 750,911	750,911
Sanitation	705,904	764,740	-	-		58,836	58,836
Airport	79,687	67,956	-	228,566		216,835	216,835
<b>Total business-type activities</b>	<b>2,730,875</b>	<b>2,904,726</b>	<b>-</b>	<b>852,731</b>		<b>1,026,582</b>	<b>1,026,582</b>
<b>Total primary government</b>	<b>\$ 5,926,366</b>	<b>\$ 3,306,419</b>	<b>\$ 25,269</b>	<b>\$ 1,187,091</b>	<b>\$ (2,434,169)</b>	<b>\$ 1,026,582</b>	<b>\$ (1,407,587)</b>

<b>General revenues</b>		
Property taxes, levied for general purposes	976,704	976,704
Property taxes, levied for debt service	573,961	573,961
Sales taxes	851,985	851,985
Sales taxes for Economic Development	425,992	425,992
Franchise taxes	229,166	229,166
Other taxes	69,327	69,327
Penalty and interest	21,100	21,100
Investment earnings	34,826	94,979
Rents and royalties	34,045	34,045
Miscellaneous	172,928	172,928
Sale of assets	13,165	(22,562)
Transfers in (out)	605,468	(605,468)
<b>Total general revenues and transfers</b>	<b>4,008,667</b>	<b>3,427,625</b>
<b>Special Item</b>	<b>(65,173)</b>	<b>(2,251,458)</b>
<b>Change in net assets</b>	<b>1,509,325</b>	<b>(231,420)</b>
<b>Net assets - beginning</b>	<b>6,262,293</b>	<b>15,274,898</b>
<b>Net assets - ending</b>	<b>\$ 7,771,618</b>	<b>\$ 15,043,478</b>

(The accompanying notes are an integral part of these financial statements.)



CITY OF GILMER, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND OTHER DEBITS:</b>					
Cash and cash equivalents	\$ 309,356	\$ 27,185	\$ 82,196	\$ 358,086	\$ 776,823
Investments	5,659	-	632,744	-	638,403
Receivables:					
Taxes	323,717	-	-	-	323,717
Due from other funds	43,700	123,554	139,435	22,641	329,330
Notes receivable	-	-	-	138,109	138,109
Other receivable	32,902	-	-	-	32,902
<b>TOTAL ASSETS</b>	<u>\$ 715,334</u>	<u>\$ 150,739</u>	<u>\$ 854,375</u>	<u>\$ 518,836</u>	<u>\$ 2,239,284</u>
<b>LIABILITIES AND FUND BALANCE:</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 82,186	\$ -	\$ -	\$ -	\$ 82,186
Due to other funds	14,771	-	-	181,700	196,471
Payable to other governments	75	-	-	-	75
Unearned revenue	242,279	-	-	-	242,279
Accrued wages	53,361	-	-	-	53,361
Accrual for compensated absences	10,449	-	-	-	10,449
<b>TOTAL LIABILITIES</b>	<u>403,121</u>	<u>-</u>	<u>-</u>	<u>181,700</u>	<u>584,821</u>
<b>FUND BALANCE</b>					
Reserved for debt service	-	150,739	854,375	-	1,005,114
Reserved for capital projects	27,736	-	-	-	27,736
Reserved for other purposes	87,948	-	-	337,136	425,084
Fund balance - unreserved	196,529	-	-	-	196,529
<b>TOTAL FUND BALANCE</b>	<u>312,213</u>	<u>150,739</u>	<u>854,375</u>	<u>337,136</u>	<u>1,654,463</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 715,334</u>	<u>\$ 150,739</u>	<u>\$ 854,375</u>	<u>\$ 518,836</u>	<u>\$ 2,239,284</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2008

Total fund balances - governmental funds balance sheet \$ 1,654,463

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

Capital assets used in governmental activities are not reported in the funds	7,163,500
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	220,475
Liabilities for bond principal which are not due in the current period are not reported in the funds.	(775,000)
Liabilities for notes payable which are not due in the current period are not reported in the funds.	(406,120)
Liabilities for accrued interest which are not due in the current period are not reported in the funds.	(22,119)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(100,211)
Court fines receivable unavailable to pay for current period expenditures are not reported in the funds.	<u>36,630</u>

Net assets of governmental activities - statement of net assets \$ 7,771,618

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property taxes	\$ 969,494	\$ 573,961	\$ -	\$ -	\$ 1,543,455
Penalty and interest	21,100	-	-	-	21,100
Sales tax	851,985	-	-	-	851,985
Sales tax for economic development	-	-	425,992	-	425,992
Franchise taxes	229,166	-	-	-	229,166
Other taxes	21,478	-	-	47,849	69,327
Fines and forfeitures	233,177	-	-	-	233,177
Licenses and permits	41,095	-	-	-	41,095
Intergovernmental revenue and grants	390,470	-	-	166,019	556,489
Investment income	3,358	1,236	23,437	6,795	34,826
Rents and royalties	34,045	-	-	27,116	61,161
Proceeds of assets sales	13,165	-	-	-	13,165
Donations	19,705	-	-	9,633	29,338
Other revenue	26,155	-	-	9,539	35,694
<b>TOTAL REVENUES</b>	<b>2,854,393</b>	<b>575,197</b>	<b>449,429</b>	<b>266,951</b>	<b>4,145,970</b>
<b>EXPENDITURES:</b>					
Legislative	18,131	-	-	-	18,131
Municipal court	56,999	-	-	-	56,999
Executive/administration	181,634	-	63,817	3,707	249,158
Community development	129,118	-	-	-	129,118
Financial administration	124,544	-	-	-	124,544
Police	948,372	-	-	8,814	955,186
Fire Protection	414,391	-	-	-	414,391
Highways and streets	411,509	-	-	-	411,509
Civic Center	3,544	-	-	52,355	55,899
Parks and trails	190	-	-	104,114	104,304
Non-departmental	728,880	-	-	-	728,880
Debt service -principal	22,032	129,096	-	-	151,128
-interest	3,616	72,144	-	-	75,760
-fees	-	34	-	-	34
<b>TOTAL EXPENDITURES</b>	<b>3,042,960</b>	<b>201,274</b>	<b>63,817</b>	<b>166,990</b>	<b>3,475,041</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>(188,567)</b>	<b>373,923</b>	<b>385,612</b>	<b>99,961</b>	<b>670,929</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	1,373,764	12,000	-	7,870	1,393,634
Transfers out	(12,000)	(432,340)	(300,126)	(43,700)	(788,166)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,361,764</b>	<b>(420,340)</b>	<b>(300,126)</b>	<b>(35,830)</b>	<b>605,468</b>
<b>SPECIAL ITEM</b>	<b>(65,173)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(65,173)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,108,024</b>	<b>(46,417)</b>	<b>85,486</b>	<b>64,131</b>	<b>1,211,224</b>
<b>FUND BALANCE, OCTOBER 1, 2007</b>	<b>(795,811)</b>	<b>197,156</b>	<b>768,889</b>	<b>273,005</b>	<b>443,239</b>
<b>FUND BALANCE, SEPTEMBER 30, 2008</b>	<b>\$ 312,213</b>	<b>\$ 150,739</b>	<b>\$ 854,375</b>	<b>\$ 337,136</b>	<b>\$ 1,654,463</b>

(The accompanying notes are an integral part of these financial statements.)

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, 2008

Net change in fund balances - total governmental funds	\$ 1,211,224
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	433,391
The depreciation of capital assets used in governmental activities is not reported in the funds.	(293,649)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,210
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	90,000
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	61,129
(Increase) decrease in accrued interest from beginning of period to end of period.	12,077
Increase (decrease) in court fines receivable.	11,340
(Increase) decrease in accrual for compensated absences.	<u>(23,397)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,509,325</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2008

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 574,314	\$ 157,757	\$ 9,700	\$ 741,771
Investments	1,162,323	366,433	-	1,528,756
Accounts receivable, net	277,165	88,098	-	365,263
Capitalized debt issuance costs	189,694	-	-	189,694
Discount and (premium) on issuance costs	73,436	-	-	73,436
Due from other funds	138,000	-	-	138,000
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	83,662	-	-	83,662
Capital assets:				
Land and Improvements	12,596,494	230,484	976,040	13,803,018
Infrastructure	10,992,787	-	-	10,992,787
Construction in progress	519,133	-	297,144	816,277
Buildings	162,453	-	882,759	1,045,212
Equipment and furniture	353,220	-	103,065	456,285
Assets under capital lease	1,249,203	-	-	1,249,203
Less accumulated depreciation	(5,646,325)	-	(251,424)	(5,897,749)
<b>TOTAL ASSETS</b>	<b>22,725,559</b>	<b>842,772</b>	<b>2,017,284</b>	<b>25,585,615</b>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	22,600	45,641	-	68,241
Wages payable	22,476	6,730	-	29,206
Accrued interest payable	257,133	-	-	257,133
Due to other funds	239,921	7,870	23,068	270,859
Customer deposits	83,662	-	360	84,022
Capital lease obligation	179,601	-	-	179,601
Bonds, notes, and loans payable	607,161	-	55,655	662,816
Noncurrent liabilities:				
Capital lease obligation	295,303	-	-	295,303
Bonds, notes, and loans payable	16,248,257	-	218,317	16,466,574
<b>TOTAL LIABILITIES</b>	<b>17,956,114</b>	<b>60,241</b>	<b>297,400</b>	<b>18,313,755</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,896,643	230,484	1,733,611	4,860,738
Restricted for debt service	275,523	-	-	275,523
Unrestricted	1,597,279	552,047	(13,727)	2,135,599
<b>TOTAL NET ASSETS</b>	<b>\$ 4,769,445</b>	<b>\$ 782,531</b>	<b>\$ 1,719,884</b>	<b>\$ 7,271,860</b>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
<b>OPERATING REVENUES:</b>				
Charges for water services	\$ 1,213,069	\$ -	\$ -	\$ 1,213,069
Charges for sewerage services	672,649	-	-	672,649
Charges for sanitation services	-	651,151	-	651,151
Penalties	36,845	-	-	36,845
Rents and royalties	13,650	-	67,932	81,582
Franchise fees	-	104,049	-	104,049
Licenses and permits	-	3,986	-	3,986
Other revenue	135,817	5,554	24	141,395
<b>TOTAL OPERATING REVENUES</b>	<b>2,072,030</b>	<b>764,740</b>	<b>67,956</b>	<b>2,904,726</b>
<b>OPERATING EXPENSES:</b>				
Salaries and employee benefits	352,007	10,964	-	362,971
Contractual services	17,820	694,940	2,385	715,145
Utilities	106,544	-	9,275	115,819
Repairs and maintenance	123,468	-	6,588	130,056
Supplies and other expenses	136,519	-	6,695	143,214
Insurance	6,161	-	-	6,161
Depreciation	245,301	-	39,640	284,941
<b>TOTAL OPERATING EXPENSES</b>	<b>987,820</b>	<b>705,904</b>	<b>64,583</b>	<b>1,758,307</b>
<b>OPERATING INCOME</b>	<b>1,084,210</b>	<b>58,836</b>	<b>3,373</b>	<b>1,146,419</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	48,250	11,733	170	60,153
Interest expense	(957,464)	-	(15,104)	(972,568)
Loss on asset sales	(35,727)	-	-	(35,727)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(944,941)</b>	<b>11,733</b>	<b>(14,934)</b>	<b>(948,142)</b>
Income (Loss) before contributions and transfers	139,269	70,569	(11,561)	198,277
Capital contributions and grants	624,165	-	228,566	852,731
Transfers in	731,922	-	20,606	752,528
Transfers out	(1,321,626)	(23,095)	(13,275)	(1,357,996)
Income (Loss) after contributions and transfers	173,730	47,474	224,336	445,540
<b>SPECIAL ITEM</b>	<b>(2,186,285)</b>	<b>-</b>	<b>-</b>	<b>(2,186,285)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(2,012,555)</b>	<b>47,474</b>	<b>224,336</b>	<b>(1,740,745)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>6,782,000</b>	<b>735,057</b>	<b>1,495,548</b>	<b>9,012,605</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 4,769,445</b>	<b>\$ 782,531</b>	<b>\$ 1,719,884</b>	<b>\$ 7,271,860</b>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from user charges	\$ 1,945,052	\$ 652,386	\$ 67,932	\$ 2,665,370
Other operating revenue	149,467	113,589	24	263,080
Cash payments to employees for services	(347,942)	(7,469)	-	(355,411)
Cash payments for contracted services	(17,820)	(652,566)	(2,385)	(672,771)
Cash payments to suppliers	(632,351)	-	(6,695)	(639,046)
Cash payments for other operating expenses	(236,173)	-	(15,863)	(252,036)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>860,233</b>	<b>105,940</b>	<b>43,013</b>	<b>1,009,186</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers to other funds	(1,321,626)	(23,095)	(13,275)	(1,357,996)
Transfers from other funds	731,922	-	20,606	752,528
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(589,704)</b>	<b>(23,095)</b>	<b>7,331</b>	<b>(605,468)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Disposition (acquisition) of capital assets	(792,040)	-	(208,844)	(1,000,884)
Payments on notes, bonds, and leases payable	(597,259)	-	(52,990)	(650,249)
Interest paid on notes, bonds, and leases payable	(956,220)	-	(15,104)	(971,324)
Capital contributions and grants	624,165	-	228,566	852,731
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(1,721,354)</b>	<b>-</b>	<b>(48,372)</b>	<b>(1,769,726)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of certificates of deposit	(1,162,323)	(366,433)	-	(1,528,756)
Maturities of certificates of deposit	1,487,753	51,659	66,013	1,605,425
Interest on investments	48,250	11,733	170	60,153
Interfund loans collected (funded)	1,027,238	163,004	(74,717)	1,115,525
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>1,400,918</b>	<b>(140,037)</b>	<b>(8,534)</b>	<b>1,252,347</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(49,807)</b>	<b>(57,192)</b>	<b>(6,562)</b>	<b>(113,661)</b>
<b>CASH AND CASH EQUIVALENTS - OCTOBER 1, 2007</b>	<b>624,221</b>	<b>214,949</b>	<b>16,262</b>	<b>855,432</b>
<b>CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2008</b>	<b>\$ 574,314</b>	<b>\$ 157,757</b>	<b>\$ 9,700</b>	<b>\$ 741,771</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income	\$ 1,084,210	\$ 58,836	\$ 3,373	\$ 1,146,419
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	245,301	-	39,640	284,941
(Increase) decrease in accounts receivable	22,489	1,235	-	23,724
Increase (decrease) in accounts payable	(495,832)	42,374	-	(453,458)
Increase (decrease) in accrued wages	4,065	3,495	-	7,560
Total adjustments	(223,977)	47,104	39,640	(137,233)
<b>Net cash provided by operating activities</b>	<b>\$ 860,233</b>	<b>\$ 105,940</b>	<b>\$ 43,013</b>	<b>\$ 1,009,186</b>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted by the City of Gilmer, Texas, conform to generally accepted accounting principles as applied to governmental entities.

**A. FINANCIAL REPORTING ENTITY**

For financial reporting purposes, the City of Gilmer includes all funds that are controlled by or dependent on the City's executive and legislative branches (the Mayor or the Council, respectively). Control by or dependence on the City is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, obligation of the City to finance any deficits that may occur, or receipt of significant subsidies from the City.

**COMPONENT UNIT**

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

**BLENDED COMPONENT UNITS**

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 Gilmer. It is included in the financial statements as a special revenue fund (Economic Development Fund). There are no separate financial statements issued. The Economic Development Corporation was formed in order to benefit the City by assessing a one-half percent sales tax to be used for future debt service of the City.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes and sales tax associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.



CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, 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.

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.

Additionally, the City reports the following fund types:

**Governmental Funds:**

**Special Revenue Funds** - The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most federal and some State financial assistance is accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

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 Water and Sewer Fund are charges to customers for sales and services. All revenues not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. BUDGETS AND BUDGETARY ACCOUNTING**

Budgets for the general fund, special revenue funds, and debt service fund are adopted on a basis consistent with the modified accrual basis of accounting. The proprietary fund budget is adopted on a basis consistent with the accrual basis of accounting except for depreciation, which is not budgeted and capital outlay, which is budgeted. Unexpended budget appropriations lapse at year end and do not carry forward to future periods.

Budget controls are imposed at the fund level and require Council approval for amendment.

**E. INTERFUND RECEIVABLES AND PAYABLES**

Any short-term advances between funds that may exist are accounted for in the appropriate interfund receivable and payable accounts.

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. CASH EQUIVALENTS

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

H. RESTRICTED ASSETS

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

I. CAPITAL ASSETS

Capital assets, which include land, land improvements, buildings, furniture and equipment, and infrastructure assets are recorded in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</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

J. DEFERRED BOND ISSUE COSTS

Deferred bond issue costs are amortized on a straight-line basis over the remaining life of the bonds.

K. 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 it. Accumulated vacation leave of proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to employees. In accordance with the provisions of *Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences"*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

L. FUND EQUITY ACCOUNTS

Reserves of fund balance or net assets are used to indicate that a portion of fund equity is not available for expenditure or is legally segregated for a specific future use.

M. INTERFUND TRANSACTIONS

Transactions that would be treated as revenue, expenditures or expenses if they involved organizations external to the government unit are accounted for as revenue, expenditures or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Operating transfers are distinguished from revenues, expenses, or expenditures in the financial statements. These transfers are reported in the "Other Financing Sources (Uses)" section in the Statement of Revenues, Expenditures, and Changes in Fund Balance (governmental funds) and in the "Non-Operating Revenues (Expenses)" section in the Statement of Revenues, Expenses, and Changes in Fund Net Assets (proprietary funds).

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. RISK FINANCING

The City provides statutory workers' compensation benefits under an insured plan of the Texas Municipal League Joint Workers' Compensation Fund. Cost of the program is charged to the appropriate fund. The City has outside property insurance coverage for major structures, primarily those used by the public and those located in a cluster to provide protection from catastrophic losses. The City maintains liability and comprehensive insurance coverage for all its vehicles and equipment.

O. INVENTORY

Inventories of materials and supplies are accounted for using the purchase method. Under the purchase method, purchases are recorded as expense when made and inventory is recorded at year-end. Inventory is immaterial and is not recorded in these financial statements.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
The City did not comply with the Public Funds Investment Act in all respects.	The City will implement procedures so that compliance will be achieved.

Deficit Fund Balances or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported.		

NOTE 3 - PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value. The assessed value for the roll as of January 1, 2007 upon which the 2008 fiscal-year levy was based, was \$238,025,622 and the tax levy was set at \$.65171 per \$100 of assessed valuation.

Taxes were due in January following the October 1 statement date. Tax collections during the fiscal year ended September 30, 2008, for the fiscal 2008 tax levy were 95.02 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2008, were \$225,751.

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, 2008 is \$5,277.

CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Land	\$ 458,194	\$ -	\$ -	\$ 458,194
Infrastructure	3,762,417	157,881	-	3,920,298
Buildings and Improvements	4,674,958	-	-	4,674,958
Machinery, Furniture and Equipment	1,834,021	167,852	(79,959)	1,921,914
Construction in progress	8,163	107,658	-	115,821
Totals at Historic Cost	<u>10,737,763</u>	<u>433,391</u>	<u>(79,959)</u>	<u>11,091,185</u>
Less accumulated depreciation for:				
Infrastructure	(1,854,916)	(93,759)	-	(1,948,675)
Buildings and Improvements	(820,418)	(78,485)	-	(898,903)
Machinery, Furniture and Equipment	(1,038,661)	(121,405)	79,959	(1,080,107)
Total accumulated depreciation	<u>(3,713,995)</u>	<u>(293,649)</u>	<u>79,959</u>	<u>(3,927,685)</u>
Governmental activities capital assets, net	<u>\$ 7,023,758</u>	<u>\$ 139,742</u>	<u>\$ -</u>	<u>\$ 7,163,500</u>
<u>Business-type activities:</u>				
Land	4,503,164	-	-	4,503,164
Land Improvements	9,299,854	-	-	9,299,854
Infrastructure	11,002,178	61,682	(71,071)	10,992,789
Buildings and Improvements	1,045,212	-	-	1,045,212
Machinery, Furniture and Equipment	387,425	121,097	(52,238)	456,284
Assets under capital lease	1,249,203	-	-	1,249,203
Construction in progress	1,953,469	1,062,369	(2,199,560)	816,278
Total capital assets being depreciated	<u>29,440,505</u>	<u>1,245,148</u>	<u>(2,322,869)</u>	<u>28,362,784</u>
Less accumulated depreciation for:				
Land Improvements	(654,580)	(109,335)	-	(763,915)
Infrastructure	(4,498,101)	(97,347)	-	(4,595,448)
Buildings and Improvements	(95,262)	(19,820)	-	(115,082)
Machinery, Furniture and Equipment	(335,134)	(33,456)	82,697	(285,893)
Assets under capital lease	(112,428)	(24,984)	-	(137,412)
Total accumulated depreciation	<u>(5,695,505)</u>	<u>(284,942)</u>	<u>82,697</u>	<u>(5,897,750)</u>
Business-type activities capital assets, net	<u>\$ 23,745,000</u>	<u>\$ 960,206</u>	<u>\$ (2,240,172)</u>	<u>\$ 22,465,034</u>

Depreciation expense was charged to departments of the primary government as follows:

<u>Governmental activities:</u>	
Legislative	\$ 816
Municipal Court	3,691
Executive/Administration	10,185
Community Development	7,328
Financial Administration	8,015
Police	56,993
Fire Protection	24,198
Highways and Streets	118,438
Civic Center	63,985
Total depreciation expense - governmental activities	<u>293,649</u>
<u>Business-type activities:</u>	
Water and sewer	245,302
Airport	39,640
Total depreciation expense - business-type activities	<u>284,942</u>

CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2008, are summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General obligation bonds	\$ 865,000	\$ -	\$ 90,000	\$ 775,000	\$ 100,000
Notes payable	467,249	-	61,129	406,120	384,165
Totals	1,332,249	-	151,129	1,181,120	484,165
Accrual for Compensated Absences	76,814	23,397	-	100,211	-
<b>Total Governmental Activities</b>	<b>\$ 1,409,063</b>	<b>\$ 23,397</b>	<b>\$ 151,129</b>	<b>\$ 1,281,331</b>	<b>\$ 484,165</b>
<b>Business-type Activities:</b>					
Revenue bonds	\$ 10,820,000	\$ -	\$ 280,000	\$ 10,540,000	\$ 290,000
Tax and revenue certificates of obligation	6,185,000	-	125,000	6,060,000	135,000
Notes payable	608,596	-	79,206	529,390	237,816
Capital lease payable	640,948	-	166,044	474,904	179,601
Total Business-Type Activities	<b>\$ 18,254,544</b>	<b>\$ -</b>	<b>\$ 650,250</b>	<b>\$ 17,604,294</b>	<b>\$ 842,417</b>
<b>Total Long-term Debt</b>	<b>\$ 19,663,607</b>	<b>\$ 23,397</b>	<b>\$ 801,379</b>	<b>\$ 18,885,625</b>	<b>\$ 1,326,582</b>

The following is a detail of Notes, General Obligation Bonds, and Revenue Bonds Payable:

	Balance as of September 30, 2008
<b>Governmental Activities:</b>	
<u>General Obligation Bonds</u>	
1994 General Obligation Bonds; principal plus interest varying from 5.25% to 7.5% due semi-annually through May 15, 2009	\$ 60,000
1999 General Obligation Bonds; principal plus interest varying from 3.35% to 4.40% due semi-annually through May 15, 2015	715,000
Total General Obligation Bonds	<u>775,000</u>
<u>Notes Payable</u>	
6% note payable to Gilmer National Bank; principal plus interest due semi-annually through September 29, 2010; secured by Fire Department Pumper Truck	43,955
Line of credit note payable to First National Bank; interest at prime - 1%; principal plus interest due February 13, 2009	362,165
Total Notes Payable	<u>406,120</u>
Total Governmental Activities	<u>\$ 1,181,120</u>

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Business Activities:

Revenue Bonds

1991 Waterworks and Sewer System Refunding and Improvement Revenue Bonds; principal plus interest varying from 7.2% to 7.25% due annually through July 1, 2011	\$ 110,000
1996 Texas Water Development Board/State Participation Water & Sewer Bonds; principal plus interest varying from 5.55% to 5.8% due semi-annually through July 15, 2035	4,800,000
1998 Waterworks and Sewer System Revenue Refunding Bonds; principal plus interest varying from 4.4% to 5.1% due annually through July 1, 2034	<u>5,630,000</u>
Total Revenue Bonds	<u>10,540,000</u>

Tax and Revenue Certificates of Obligation

2000 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 5.0% to 6.875% due semi-annually through July 1, 2015	1,315,000
2001 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 4.5% to 6.5% due semi-annually through May 15, 2027	<u>4,745,000</u>
Total Tax and Revenue Certificates of Obligation	<u>6,060,000</u>

Notes Payable

5% note payable to Gilmer National Bank; principal plus interest due monthly through March 28, 2013; secured by real property	273,974
7.5% note payable to Gilmer National Bank; principal plus interest due monthly through January 15, 2017; secured by real property	81,169
Line of credit note payable to First National Bank; interest at prime - 1%; principal plus interest due February 13, 2008	<u>174,247</u>
Total Notes Payable	<u>529,390</u>
Total Business Activities	<u>\$ 17,129,390</u>

1996 Texas Water Development Board/State Participation Water and Sewer Bonds

The Water Development Board furnished this \$4.8 million dollars as a portion of the funds needed for the construction of the dam and the reservoir at Lake Gilmer. Upon deposit of the funds into the City's construction fund, there was vested in the Board, on behalf of the State of Texas, an approximate 42.77% undivided interest in the total conservation storage facilities of the project, including the right to divert and sell water to the extent of the yield of such undivided interest. As the City begins paying back principal on July 15, 2012, they will begin gradually purchasing back the Board's interest in the project until it will totally belong to the City on July 15, 2035, when the last principal payment is made.

Aggregate maturities of long-term debt subsequent to September 30, 2008 are as follows:

Governmental activities:

Year Ending September 30	Principal	Interest	Total
2009	\$ 484,165	\$ 37,535	\$ 521,700
2010	121,955	30,895	152,850
2011	105,000	25,607	130,607
2012	110,000	21,040	131,040
2013	115,000	16,200	131,200
2014-2015	245,000	16,650	261,650
	<u>\$ 1,181,120</u>	<u>\$ 147,927</u>	<u>\$ 1,329,047</u>

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Business-type activities:

Year Ending September 30	Principal	Interest	Total
2009	\$ 842,417	\$ 934,907	\$ 1,777,324
2010	705,652	911,297	1,616,949
2011	766,999	899,110	1,666,109
2012	609,078	873,837	1,482,915
2013	633,620	781,700	1,415,320
2014-2018	3,046,528	3,388,539	6,435,067
2019-2023	3,275,000	2,640,153	5,915,153
2024-2028	3,760,000	1,724,715	5,484,715
2029-2033	2,915,000	866,406	3,781,406
2034-2035	1,050,000	97,369	1,147,369
	<u>\$ 17,604,294</u>	<u>\$ 13,118,033</u>	<u>\$ 30,722,327</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and requirements.

Combination Tax and Revenue Certificates of Obligation

In the fiscal year ended September 30, 2008, the City transferred \$ 434,559 from the General Obligation Debt Service Fund to the Water and Sewer Fund for payment on the 2000 and 2001 Series Combination Tax and Revenue Certificates of Obligation. These transfers are recorded as operating transfers. The City has determined, based upon the certificates of obligation documents and legal advice, that these transfers are appropriate.

Capital Lease Obligation

The City is obligated under a lease accounted for as a capital lease. The leased assets, consisting of radio-read water meters, are accounted for in the Water and Sewer Fund at an original cost of \$1,249,203. Accumulated depreciation on assets under capital lease at September 30, 2008, was \$ 137,412.

The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of September 30, 2008.

Year Ending September 30	Water and Sewer Fund
2009	\$ 198,576
2010	204,647
2011	103,809
Minimum lease payments for the capital lease	507,032
Less: Amount representing interest at the City's incremental borrowing rate	(32,128)
Present value of future minimum lease payments	<u>\$ 474,904</u>

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2008 were as follows:

	Due To					Totals
	General Fund	Debt Service	Economic Development	Other Governmental Funds	Water & Sewer	
General Fund	\$ -	\$ -	\$ -	\$ 14,771	\$ -	\$ 14,771
Other Governmental Funds	43,700	-	-	-	138,000	181,700
Water & Sewer Fund	-	100,486	139,435	-	-	239,921
Sanitation Fund	-	-	-	7,870	-	7,870
Airport Fund	-	23,068	-	-	-	23,068
	<u>\$ 43,700</u>	<u>\$ 123,554</u>	<u>\$ 139,435</u>	<u>\$ 22,641</u>	<u>\$ 138,000</u>	<u>\$ 467,330</u>

Interfund loans consist of current and prior year borrowings between funds to satisfy cash flow requirements.

Interfund transfers for the year ended September 30, 2008 were as follows:

Transfer From	Transfer To					Totals
	General Fund	Debt Service	Other Governmental	Water & Sewer	Airport	
General Fund	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ 12,000
Debt Service Fund	-	-	-	432,340	-	432,340
Economic Development Fund	544	-	-	299,582	-	300,126
Other Governmental Funds	43,700	-	-	-	-	43,700
Water & Sewer Fund	1,316,245	-	-	-	5,381	1,321,626
Sanitation Fund	-	-	7,870	-	15,225	23,095
Airport Fund	13,275	-	-	-	-	13,275
	<u>\$ 1,373,764</u>	<u>\$ 12,000</u>	<u>\$ 7,870</u>	<u>\$ 731,922</u>	<u>\$ 20,606</u>	<u>\$ 2,146,162</u>
	To fund current operations and pay off interfund debts	To fund debt service requirements	To fund Civic Center improvements	To fund debt service requirements	To provide matching funds for grant and purchase airport insurance	

NOTE 7 - EMPLOYEE BENEFITS

A. PLAN DESCRIPTION

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for



CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

service since the plan began, would be the total monetary credits and employee contributions with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City are as follows:

Deposit Rate:	6%
Matching Rates (City to Employee):	2-1
A member is vested after:	5 yrs

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

B. CONTRIBUTIONS

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's anniversary date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date		12/31/2007
Actuarial Value of Assets	\$	2,767,844
Actuarial Accrued Liability	\$	4,273,905
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$	1,506,061
Funded Ratio		64.80%
Annual Covered Payroll	\$	1,532,292
UAAL as a Percentage of Covered Payroll		98.29%
Net Pension Obligation (NPO) at the Beginning of Period		-
<b>ANNUAL PENSION COST:</b>		
Annual required contribution (ARC)	189,983	
Interest on NPO	-	
Adjustment to the ARC	-	189,983
Contributions made		
Increase in NPO		<u>(189,983)</u>
NPO at the end of the period	\$	<u>-</u>

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for FY2007 and the two preceding years were as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
9/30/2005	\$ 180,627	100%	\$ -
9/30/2006	173,118	100%	-
9/30/2007	189,983	100%	-

The City of Gilmer is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/07 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Texas Emergency Services Retirement System

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2006, there were 181 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2006, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	1,766
Terminated participants entitled to benefits but not yet receiving them	1,815
Active participants (vested and nonvested)	4,480
	8,061

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ended August 31, 2006, total contributions (dues and prior service) of \$2,077,728 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$675,307 for the fiscal year ended August 31, 2006. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2004 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2006, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2007 (\$709,613 as the maximum state contribution according to state law plus approximately \$400,000 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) maximum state contribution amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$400,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ended August 31, 2007 are equal to contributions required.

Required Supplementary Information:

<u>Schedule of Funding Progress</u>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/2002	\$ 32,797,262	\$ 45,976,387	\$ 13,179,125	71.30%	7,669	\$ 1,718
8/31/2004	38,140,501	51,567,426	13,426,925	74.00%	7,994	1,680
8/31/2006	42,268,305	58,082,828	15,814,523	72.80%	8,061	1,962

Notes:

The actuarial liability is based upon the entry age actuarial cost method. Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in the 8/31/06 valuation.

Fiscal Year Ended August 31	<u>Three-Year Trend Information</u>		
	Annual Required Contribution	Actual Contribution	Percentage Contributed
2004	\$ 2,896,557	\$ 1,882,762	65%
2005	3,206,300	1,603,150	50%
2006	2,753,035	2,753,035	100%

Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Actuarial assumptions and methods as of the latest actuarial valuations follows:

Valuation date	August 31, 2006
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value

CITY OF GILMER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

Actuarial assumptions:

Investment rate of return*	8.00% per year, net of investment expenses
Projected salary increases	N/A
*Includes inflation at	3.75%
Cost-of-living adjustments	None

NOTE 8 - RESERVED FUND BALANCE

As of September 30, 2008, fund balances reserved for specific purposes were as follows:

General Fund	
Hotel-Motel tax	\$ 1,284
Court Restricted Funds	12,127
Other Dedicated Funds	<u>74,537</u>
	<u>\$ 87,948</u>
Other Governmental Funds	
Police Dept Seizure Fund	\$ 961
Civic Center	34,008
USDA Loan Program - current	24,205
USDA Loan Program - noncurrent	125,855
Kelsey Creek Trails	(3,149)
Lake Gilmer Park	<u>155,256</u>
	<u>\$ 337,136</u>

NOTE 9 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2008, the carrying amounts of the City's bank accounts were \$ 1,602,256 and the balances on deposit were \$1,593,326. The City's cash deposits at September 30, 2008 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment training and management reports, the City did not adhere to the requirements of the Act.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City's investments at September 30, 2008, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Various	<u>\$ 2,167,159</u>
Total Investments		<u>\$ 2,167,159</u>

CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF GILMER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Contingencies

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

In an agreement with Upshur County, Texas, and in connection with the County's acceptance of certain infrastructure improvements that were deannexed by the City in December, 2007, the City is obligated to pay 25% of any repair and maintenance costs incurred on the property for a period of two years. Although the potential cost of such repairs is unknown, management estimates that it will not be material to the City's financial statements.

**NOTE 11 - LINE OF CREDIT**

The City has established an open line of credit of \$1,000,000 with a bank for the benefit of the General Fund and the Water and Sewer Fund. At September 30, 2008, the City had a balance owed of \$ 362,165 in the Governmental Activities and \$ 174,247 in the Business Type Activities. The interest rate is variable and is based upon the Prime Rate. The interest rate was 5.0% at September 30, 2008. Unused line of credit at September 30, 2008 was \$ 463,588. The line of credit matures February 12, 2009.

The Water and Sewer Fund reports its portion of the line of credit as a current liability. The General Fund reports its portion of the line of credit as a long-term liability due to the fact that it does not have sufficient current resources to repay the debt and will rely on non-current resources for repayment.

**NOTE 12 - DEFERRED COMPENSATION**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan assets are not a part of the City's financial statements because a third party administrator holds these plan assets in trust.

The market value and carrying value of deferred compensation plan assets was \$152,552 at September 30, 2008.

**NOTE 13 - ACCOUNT CLASSIFICATIONS**

The City charges certain administrative costs to a department code titled "Non-Departmental". The primary costs included in non-departmental are employee pension, employee health insurance, payroll taxes and utilities.

**NOTE 14 - SPECIAL ITEMS**

In December, 2007, the governing body approved the deannexation of certain property within the city limits of the City of Gilmer. The City was required by law to refund property taxes previously received from taxpayers within the deannexed area, and the General Fund reports a Special Item in the amount of \$65,173 for those tax refunds. In addition, the City's Water and Sewer Fund reports a Special Item in the amount of \$2,186,285 for the cost of infrastructure improvements that were included in the deannexed area and which were accepted by Upshur County, Texas.

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REQUIRED SUPPLEMENTAL INFORMATION



CITY OF GILMER, TEXAS  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
<b>REVENUES:</b>				
Property taxes	\$ 962,500	\$ 962,500	\$ 969,494	\$ 6,994
Penalty and interest	30,000	30,000	21,100	(8,900)
Sales tax	1,195,500	1,195,500	851,985	(343,515)
Franchise taxes	250,250	250,250	229,166	(21,084)
Fines and forfeitures	180,600	180,600	233,177	52,577
Licenses and permits	42,100	42,100	41,095	(1,005)
Other taxes	65,160	65,160	21,478	(43,682)
Investment income	1,500	1,500	3,358	1,858
Rents and royalties	35,000	35,000	34,045	(955)
Proceeds of asset sales	-	2,015	13,165	11,150
Donations	-	-	19,705	19,705
Intergovernmental revenues and grants	51,300	62,681	390,470	327,789
Miscellaneous	87,430	87,430	26,155	(61,275)
<b>TOTAL REVENUES</b>	<b>2,901,340</b>	<b>2,914,736</b>	<b>2,854,393</b>	<b>(60,343)</b>
<b>EXPENDITURES:</b>				
Legislative	16,950	16,950	18,131	(1,181)
Municipal court	56,935	56,935	56,999	(64)
Executive/administration	171,030	176,030	181,634	(5,604)
Community development	137,080	137,080	129,118	7,962
Financial administration	116,780	116,780	124,544	(7,764)
Police	877,180	910,537	948,372	(37,835)
Fire protection	339,140	345,004	414,391	(69,387)
Highways and streets	231,365	231,365	411,509	(180,144)
Civic center	-	-	3,544	(3,544)
Parks and trails	-	-	190	(190)
Non-departmental	992,600	1,176,257	728,880	447,377
Debt service - principal	22,000	22,000	22,032	(32)
Debt service - interest and other charges	3,700	3,700	3,616	84
<b>TOTAL EXPENDITURES</b>	<b>2,964,760</b>	<b>3,192,638</b>	<b>3,042,960</b>	<b>149,678</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(63,420)</b>	<b>(277,902)</b>	<b>(188,567)</b>	<b>89,335</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	473,920	1,444,660	1,373,764	(70,896)
Transfers out	(410,500)	(410,500)	(12,000)	398,500
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>63,420</b>	<b>1,034,160</b>	<b>1,361,764</b>	<b>327,604</b>
<b>SPECIAL ITEM</b>	<b>-</b>	<b>-</b>	<b>(65,173)</b>	<b>(65,173)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>-</b>	<b>756,258</b>	<b>1,108,024</b>	<b>351,766</b>
<b>FUND BALANCE, OCTOBER 1, 2007</b>	<b>(795,811)</b>	<b>(795,811)</b>	<b>(795,811)</b>	<b>-</b>
<b>FUND BALANCE, SEPTEMBER 30, 2008</b>	<b>\$ (795,811)</b>	<b>\$ (39,553)</b>	<b>\$ 312,213</b>	<b>\$ 351,766</b>

(The accompanying notes are an integral part of these financial statements.)

CITY OF GILMER, TEXAS  
 ECONOMIC DEVELOPMENT FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Sales tax	\$ 396,000	\$ 396,000	\$ 425,992	\$ 29,992
Investment income	<u>1,500</u>	<u>1,500</u>	<u>23,437</u>	<u>21,937</u>
TOTAL REVENUES	<u>397,500</u>	<u>397,500</u>	<u>449,429</u>	<u>51,929</u>
EXPENDITURES:				
Executive/administration	<u>59,400</u>	<u>59,400</u>	<u>63,817</u>	<u>(4,417)</u>
TOTAL EXPENDITURES	<u>59,400</u>	<u>59,400</u>	<u>63,817</u>	<u>(4,417)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	338,100	338,100	385,612	47,512
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(275,700)</u>	<u>(275,700)</u>	<u>(300,126)</u>	<u>(24,426)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(275,700)</u>	<u>(275,700)</u>	<u>(300,126)</u>	<u>(24,426)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	62,400	62,400	85,486	23,086
FUND BALANCE, OCTOBER 1, 2007	<u>768,889</u>	<u>768,889</u>	<u>768,889</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2008	<u>\$ 831,289</u>	<u>\$ 831,289</u>	<u>\$ 854,375</u>	<u>\$ 23,086</u>

(The accompanying notes are an integral part of these financial statements.)

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COMPLIANCE SECTION

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**KAREN A. JACKS & ASSOCIATES, P.C.**  
Certified Public Accountants

Karen A. Jacks, CPA  
Peggy J. Lantz, CPA  
Sherry Davis, CPA

P.O. Box 3167  
Longview, Texas 75606

1501 Colony Circle  
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

INDEPENDENT AUDITORS' REPORT

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

Honorable Mayor and City Council  
City of Gilmer, Texas

We have audited the 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, as of and for the year ended September 30, 2008, which collectively comprise the City of Gilmer, Texas' basic financial statements and have issued our report thereon dated March 12, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gilmer, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gilmer, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gilmer, Texas' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, reported as findings 2008-2, 2008-3, 2008-4, 2008-5, 2008-6 and 2008-7, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-2 and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gilmer, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

We noted certain matters that we reported to management of City of Gilmer, Texas, in a separate letter dated March 12, 2009.

This report is intended for the information of City Council; management; and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Karen A. Jacks & Associates, P.C.*

Karen A. Jacks & Associates, P.C.

Longview, Texas  
March 12, 2009

# KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

Karen A. Jacks, CPA  
Peggy J. Lantz, CPA  
Sherry Davis, CPA

P.O. Box 3167  
Longview, Texas 75606

1501 Colony Circle  
Longview, Texas 75604

Phone: 903 • 238 • 8822

Fax: 903 • 238 • 9838

## INDEPENDENT AUDITORS' REPORT

### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council  
City of Gilmer, Texas

#### Compliance

We have audited the compliance of the City of Gilmer, Texas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Gilmer's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City of Gilmer's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Gilmer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Gilmer's compliance with those requirements.

In our opinion, the City of Gilmer, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

#### Internal Control over Compliance

The management of the City of Gilmer, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Gilmer's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of City Council; management; and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Karen A. Jacks & Associates, P.C.*

Karen A. Jacks & Associates, P.C.

Longview, Texas  
March 12, 2009

CITY OF GILMER, TEXAS  
 SCHEDULE OF PRIOR AUDIT FINDINGS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

Finding/Recommendation	Current Status
<p><u>Finding 2007-1</u>            Deposits were not fully insured and/or collateralized at all times during the year.</p>	<p>This condition did not recur during the year under audit.</p>
<p><u>Finding 2007-2</u>            The general fund reported a deficit fund balance of \$795,811 at September 30, 2007.</p>	<p>The fund balance deficit was corrected by action of the City Council to make a permanent transfer of funds from the Water &amp; Sewer Fund.</p>
<p><u>Finding 2007-3</u>            The City did not comply with the Public Funds Investment Act.</p>	<p>This finding is repeated in the current year. See Finding 2008-1.</p>
<p><u>Finding 2007-4</u>            City Council has adopted a Purchasing Procedure which requires purchase orders for all purchases in excess of \$3,000. This procedure was not adhered to during the year under audit.</p>	<p>This finding is repeated in the current year. See Finding 2008-2.</p>
<p><u>Finding 2007-5</u>            During the performance of the audit procedures, we noted management had not adjusted all account balances to reflect appropriate year-end balances and had not performed all necessary reconciliations to subsidiary records. These are necessary steps to ensure the financial statements are fairly stated. The unrecorded amounts were, in our judgment, material to the financial statements. Management subsequently recorded some of the amounts and audit adjustments were proposed for the remainder. Since the City's control policies and procedures did not prevent or detect a material misstatement of the financial statements, we concluded there is a material weakness in the City's control policies and procedures required to be reported under professional standards.</p>	<p>This finding is repeated in the current year. See Finding 2008-3.</p>
<p><u>Finding 2007-6</u>            The City does not have an established write-off policy for uncollectible water service accounts.</p>	<p>This finding is repeated in the current year. See Finding 2008-4.</p>
<p><u>Finding 2007-7</u>            The City does not have a procedure for reconciliation of Civic Center rental contracts to rental income recorded in the books.</p>	<p>This finding is repeated in the current year. See Finding 2008-5.</p>

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CITY OF GILMER, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  Yes      No

Significant deficiencies identified that are not considered to be material weaknesses?  X  Yes      None Reported

Noncompliance material to financial statements noted?  X  Yes      No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?      Yes  X  No

Significant deficiencies identified that are not considered to be material weaknesses?      Yes  X  No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?      Yes  X  No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
---	-----------------------

Hazard Mitigation Grant	83.548
-------------------------	--------

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
--	------------------

Auditee qualified as low-risk auditee?      Yes  X  No

B. Financial Statement Findings

Finding 2008-1

Condition:

The City's investment officers did not obtain required investment training; further, there were no quarterly or annual investment reports to City Council.

CITY OF GILMER, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Cause:

City management has not fully implemented the requirements of the Public Funds Investment Act.

Effect:

The City is out of compliance with the Public Funds Investment Act.

Recommendation:

City management should complete its implementation of procedures to comply with the Public Funds Investment Act in all respects.

Finding 2008-2

Condition:

In randomly selected disbursements and certain targeted selections, the auditors noted a number of purchases in excess of \$3,000 for which purchase orders were not completed in accordance with City purchasing procedures.

Cause:

The City's purchasing procedure is not monitored consistently to insure compliance.

Effect:

Certain purchases during the year under audit were not subjected to the required purchasing procedures and required approvals were not obtained.

Recommendation:

City management should implement a more formal purchasing procedure which assigns accountability for compliance with the requirements of the procedure and includes a monitoring function as well.

Finding 2008-3

Condition:

During the performance of our audit procedures, we noted management had not adjusted all account balances to reflect accurate year-end balances and had not performed all necessary reconciliations to subsidiary records. Further, we noted that bank reconciliations were not performed in a timely manner throughout the year under audit. These are necessary steps to ensure the financial statements are fairly stated on an interim and annual basis. The unrecorded amounts as of year-end were, in our judgment, material to the financial statements. Management subsequently recorded some of the amounts and audit adjustments were proposed for the remainder. Since the City's control policies and procedures did not prevent or detect a material misstatement of the financial statements, we concluded there is a material weakness in the City's control policies and procedures required to be reported under professional standards.

Cause:

The City's business manager does not devote sufficient time to the reconciliation process and, in some cases, is underqualified for the duties of the position.

Effect:

These conditions increase the risk of material misstatements in the City's financial statements on an interim and annual basis.

CITY OF GILMER, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Recommendation:

City management should consider reassigning certain accounting functions to someone with the essential skills to complete all tasks in a timely and accurate manner. This might necessitate outsourcing of some duties.

Finding 2008-4

Condition:

The City's uncollected water and sewer billings for the year under audit were significantly more than expected.

Cause:

The City does not have an established write-off policy for uncollectible water and sewer service accounts; the enforcement of service cut-offs for nonpayment of accounts is not effective; and the monitoring of customer payment agreements is inadequate.

Effect:

The City's water and sewer fund collection rate is lower than expected.

Recommendation:

The City should reconsider its policy for allowing customer payment agreements and should effectively monitor those agreements to insure that customers who fail to comply have service disconnected in a timely manner.

Finding 2008-5

Condition:

Civic center rental contracts are not reported to the City's business office as they occur, and there is no effective monitoring of revenues from the civic center.

Cause:

The civic center manager is allowed to manage that facility in a somewhat independent manner, and there is no requirement for periodic reporting to and reconciliation with the business office.

Effect:

Revenues from the civic center are not adequately controlled.

Recommendation:

City management should require the civic center manager to report each rental contract to the business office when it is executed; the business office should monitor rental collections and follow up on payments not received in a timely manner.

Finding 2008-6

Condition:

Certain water and sewer customers were underbilled during the year under audit.

Cause:

Upon the approval of increased rates for water and sewer services as of October 1, 2007, City staff revised the rate structure in the City's billing software. However, due to insufficient review and supervision of the rate changes, the rate updates were incomplete and some customer billings were processed under the old rate structure until discovery of the error during the audit in early 2009.

CITY OF GILMER, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Effect:

The City experienced an unrecoverable loss of revenues due to billings that were processed inaccurately.

Recommendation:

City management should implement adequate review and supervision procedures to insure that such errors, if they occur, are detected by City staff in the normal course of their duties.

Finding 2008-7

Condition:

Certain adjustments to receivables for outstanding fines and fees in the municipal court were not properly documented with written approval.

Cause:

The municipal court clerk is authorized to post non-cash adjustments to court fines and fees receivable; audit procedures disclosed that a number of such adjustments were processed based upon verbal telephone approvals.

Effect:

The municipal court clerk receives and posts fee and fine revenues to the municipal court accounting records. She also records non-cash adjustments to citation records. Because her duties include custody and control of City assets as well as access to the related accounting records, there is an inherent risk that inappropriate entries could be made and not detected.

Recommendation:

The auditors acknowledge that the City's small staff size precludes the segregation of duties described in this condition. Because the clerk's duties include custody and control of City assets as well as access to the related accounting records, we recommend that all account adjustments be supported by written authorization of an appropriate City official. We also recommend that periodic reconciliations and monitoring be performed by a staff member who is independent of the court's operations.

C. Federal Award Findings and Questioned Costs

None

CITY OF GILMER, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

The person responsible for this corrective action plan is Jeff Ellington, City Manager.

**Finding 2008-1**

The City has made changes in staffing that will result in compliance with the Public Funds Investment Act.

**Finding 2008-2**

The City has made changes in staffing and will review the purchasing procedures and make needed changes to attain compliance.

**Finding 2008-3**

The City has made staffing changes that will result in a review of these issues and will implement changes to prevent reoccurrence.

**Finding 2008-4**

The staff will review existing circumstances and develop a write-off policy for uncollectible water service with procedures to have effective enforcement of service cutoff for nonpayment.

**Finding 2008-5**

The staff will review existing procedures and implement changes as needed to have an effective reconciliation of civic center rental contracts to rental income.

**Finding 2008-6**

Staff has completed a total review of all billing accounts to assure rate corrections. Future rate changes will be monitored closely and reviewed to prevent errors.

**Finding 2008-7**

Management will consult with the court clerk, municipal judge, and city attorney to implement proper written authorization as needed.



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CITY OF GILMER, TEXAS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security Passed Through Governor's Division of Emergency Management:			
State Homeland Security Program	97.073	06-GE-T6-0068	9,161
State Homeland Security Program	97.073	07-SR25964-01	50,901
Total CFDA 97.073			60,062
Law Enforcement Terrorism Prevention Program	97.074	07-SR29564-01	5,252
Passed Through Texas Department of Public Safety, Division of Emergency Management:			
Disaster Grants - Public Assistance	97.074	HS-050242	52,105
Hazard Mitigation Grant	83.548 *	DR-1356-017	616,965
			734,384
Total U.S. Department of Homeland Security			
U.S. Department of Transportation Passed Through Texas Department of Transportation:			
Airport Improvement Program	20.106	0819 GLMER	222,119
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 956,503

\* Original CFDA No. 83.548 has been superseded by CFDA No. 97.039

City of Gilmer, Texas  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2008

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Gilmer, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.