

CITY OF GILMER, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2012

CITY COUNCIL

R.D. CROSS, MAYOR

WILLIAM HORNSBY, MAYOR PRO TEM

JOSE CAVAZOS

BRIAN WILLIAMS

BRENDA JEFFERY

MICHAEL CHEVALIER

CITY MANAGER

JEFF ELLINGTON

CITY SECRETARY

KATHY HOOVER

BUSINESS MANAGER

GARY SMITH

CITY OF GILMER, TEXAS
 SEPTEMBER 30, 2012
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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, 2012, 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, 2012, 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 19, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 3 through 8 and 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
March 19, 2013

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City of Gilmer, Texas

Management's Discussion and Analysis

For Year Ended September 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with additional information in the City's financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- i The City of Gilmer's assets at September 30, 2012 totaled \$33,792,867 compared to its liabilities of \$15,213,035; the excess of assets over liabilities (net assets) was \$18,579,832, an increase of \$1,009,711 or 6% compared to the net asset position at September 30, 2011.
- i During the year ended September 30, 2012, the City replaced the West Side Lift Station at a cost of \$475,000, paid out Water Sewer Reserves. This station supports the entire West side of the city and was in constant need of repair and maintenance to ensure proper operation.
- i During the year ended September 30, 2012, the City installed a Supervisory Control and Data Acquisition system (SCADA) that allows remote monitoring and control operations at the three water booster plants, Simpson Mountain water tank and the West Side Lift Station. The entire cost of \$141,000 was paid out of the Water Sewer fund Reserves.
- i Total General Fund revenues were \$2,795,512 with expenditures of \$2,935,924. There were also net transfers into the General Fund from Proprietary funds of \$332,239 and transfers from the General Fund to other governmental funds of \$43,513, which resulted in an increase in fund balance of \$148,314. At September 30, 2012 the General Fund had a fund balance of \$341,078.

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 \$18,579,832, as of September 30, 2012, an increase of \$1,009,711 from the previous year.

The largest portion of the City's net assets, 82%, 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	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$1,595,958	\$1,767,359	\$2,991,906	\$2,739,304	\$4,587,864	\$4,506,663
Capital assets	11,562,221	11,390,857	17,431,535	17,895,347	28,993,756	29,286,204
Total Assets	13,158,179	13,158,216	20,423,441	20,634,651	33,581,620	33,792,867
Current liabilities	592,355	598,990	899,144	904,045	1,491,499	1,503,035
Noncurrent liabilities, due in more than one year	4,635,000	4,380,000	9,885,000	9,330,000	14,520,000	13,710,000
Total Liabilities	5,227,355	4,978,990	10,784,144	10,234,045	16,011,499	15,213,035
Net Assets:						
Invested in capital assets, net of related debt	6,682,221	6,959,543	7,011,535	8,295,496	13,693,756	15,255,039
Restricted	788,636	814,308	131,046	112,609	919,682	926,917
Unrestricted	459,967	405,375	2,496,716	1,992,501	2,956,683	2,397,876
Total Net Assets	7,930,824	8,179,226	9,639,297	10,400,606	17,570,121	18,579,832

Analysis of the City's Operations- Overall the City had an increase in net assets of \$1,009,711. Governmental activities increased the net assets by \$248,402 and net assets from business-type activities increased by \$761,309.

The following table provides a summary of the City's operations for the year ended September 30, 2012

CITY OF GILMER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
REVENUES:						
PROGRAM REVENUES:						
Charges for services	\$306,720	\$371,881	\$3,093,312	\$2,960,930	\$3,400,032	\$3,332,811
Operating grants & contributions	239,066	101,426	4,056	9,018	243,122	110,444
Capital grants & contributions	--	--	90,380	--	90,380	--
GENERAL REVENUES:						
Property taxes, levied for general purposes	1,073,652	1,028,766	--	--	1,073,652	1,028,766
Property taxes, levied for debt services	572,048	573,601	--	--	572,048	573,601
Sales taxes	878,982	897,205	--	--	878,982	897,205
Sales tax for Economic Development	439,491	448,609	--	--	439,491	448,609
Franchise taxes	218,720	213,583	--	--	218,720	213,583
Other taxes	58,680	37,161	--	--	58,680	37,161
Penalty and interest	22,115	36,067	--	--	22,115	36,067
Miscellaneous revenue	154,901	69,987	--	--	154,901	69,987
Investment earnings	12,339	7,791	17,646	12,838	29,985	20,629
Rents and royalties	11,078	--	--	--	11,078	--
Sale of equipment	3,339	51,675	-24,725	-1,929	-21,386	49,746
Transfers in (out)	-498,678	-79,029	498,678	79,029	--	--
TOTAL REVENUES	3,492,453	3,758,723	3,679,347	3,059,886	7,171,800	6,818,609
EXPENSES:						
Legislative	16,670	26,648	--	--	16,670	26,648
Municipal court	72,901	84,607	--	--	72,901	84,607
Executive/administration	272,186	283,460	--	--	272,186	283,460
Community development	110,525	146,795	--	--	110,525	146,795
Financial administration	150,453	157,033	--	--	150,453	157,033
Police	1,169,471	1,276,380	--	--	1,169,471	1,276,380
Fire protection	503,572	501,689	--	--	503,572	501,689
Highways and Streets	701,379	397,148	--	--	701,379	397,148
Civic center	173,421	173,044	--	--	173,421	173,044
Non departmental	246,086	241,875	--	--	246,086	241,875
Interest & fiscal agent fees	109,510	221,642	--	--	109,510	221,642
Water & sewer	--	--	1,962,609	1,595,551	1,962,609	1,595,551
Sanitation	--	--	601,115	632,599	601,115	632,599
Airport	--	--	88,758	70,427	88,758	70,427
TOTAL EXPENSES	3,526,174	3,510,321	2,652,482	2,298,577	6,178,656	5,808,898
CHANGES IN NET ASSETS	-33,721	248,402	1,026,865	761,309	993,144	1,009,711
NET ASSETS – BEGINNING	7,964,545	7,930,824	8,612,432	9,639,297	16,576,977	17,570,121
NET ASSETS-ENDING	\$7,930,824	\$8,179,226	\$9,639,297	\$10,400,606	\$17,570,121	\$18,579,832

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 \$1,176,177 which is an increase of \$223,208 from last fiscal year's balance of \$952,969. Of the current balance, \$308,761 constitutes unassigned fund balance. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been obligated for debt service or other purposes.

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- \$1,407,202 and Sanitation- \$622,385.

General Fund Budgetary Highlights- The City made several revisions to the original budget during the year. At year-end, total revenues were over the budgeted amount by \$78,447 while total expenditures were under budget by \$311,380.

CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2012 amounts to \$29,286,203 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery & equipment and construction in progress. The increase of infrastructure was from the installation of the West Side lift station and the installation of the Supervisory Control and Data Acquisition (SCADA) system.

Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Land	\$6,330,697	\$6,330,697	\$4,525,164	\$4,525,164	\$10,855,861	\$10,855,861
Infrastructure	1,686,398	1,591,323	8,000,623	8,470,011	9,687,021	10,061,334
Buildings	2,618,201	2,541,324	807,235	787,284	3,425,436	3,328,608
Improvements, other than bldgs	--	--	3,963,173	3,883,706	3,963,173	3,883,706
Machinery & Equip	926,925	927,513	80,226	223,932	1,007,151	1,151,445
Construction in Progress	--	--	55,114	5,250	55,114	5,250
Total	\$11,562,221	\$11,390,857	\$17,431,535	\$17,895,347	\$28,993,756	\$29,286,204

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$14,520,000. Of this amount, \$360,000 comprises bonded debt backed by the full faith and credit of the government, while \$4,655,000 represents bonds secured solely by water and sewer revenues and \$5,230,000 represents Combination Tax and Revenue Certificates of Obligation which are secured by tax receipts as well as water and sewer revenue. The remaining amount of \$4,275,000 does not constitute an obligation of the City of Gilmer, but is reported herein as an obligation of its component unit, Gilmer Economic Development Corporation. Without this amount reported, the City of Gilmer's outstanding debt decreased from \$10,890,000 to \$10,245,000, a decrease of \$645,000, or approx. 6%.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
General Obligation Bonds	\$470,000	\$360,000	\$ --	\$ --	\$470,000	\$360,000
Revenue Bonds Payable	--	--	4,910,000	4,655,000	\$4,910,000	\$4,655,000
Tax & Revenue CO	--	--	5,510,000	5,230,000	\$5,510,000	\$5,230,000
Sub-total	\$470,000	\$360,000	\$10,420,000	\$9,885,000	\$10,890,000	\$10,245,000
Sales & Tax Revenue Bonds *****	--	--	4,410,000	4,275,000	\$4,410,000	\$4,275,000
Total	\$470,000	\$360,000	\$14,830,000	\$14,160,000	\$15,300,000	\$14,520,000

***** Sales & Tax Revenue Bonds do not constitute an obligation of the City of Gilmer, but are reported herein because they are an obligation of its component unit, Gilmer Economic Development Corporation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget and rates. Sales tax receipts, which had been increasing from 2006 to 2009, decreased almost 4% for fiscal year 2009/2010, but showed leveling in the first three quarters of the 2010-2011 fiscal year. The last quarter of the 2010-2011 fiscal year continued to be level with the previous year and with that in mind, sales tax revenue was budgeted conservatively for the 2011-2012 fiscal year. The City's property tax rate for 2011-2012 was \$ 0.6314 per \$100 valuation. The property tax rate for 2012-2013 is set at \$0.636419/\$100. Property values decreased .01% for the 2012-2013 budget year over 2011-2012.

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.

BASIC FINANCIAL STATEMENTS

CITY OF GILMER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 820,767	\$ 1,211,785	\$ 2,032,552
Investments	333,853	894,525	1,228,378
Receivables (net of allowance for uncollectibles):			
Taxes	233,728	-	233,728
Accounts	83,363	403,347	486,710
Other	36,460	-	36,460
Internal balances	55,502	(55,502)	-
Debt issuance costs, net of amortization	181,518	342,310	523,828
Discount or premium on bond issuance	22,168	(57,161)	(34,993)
Capital assets (net of accumulated depreciation):			
Land	6,330,697	4,525,164	10,855,861
Improvements	1,591,323	12,353,717	13,945,040
Buildings and improvements	2,541,324	787,284	3,328,608
Furniture and equipment	927,513	223,931	1,151,444
Construction in progress	-	5,250	5,250
Total assets	<u>13,158,216</u>	<u>20,634,650</u>	<u>33,792,866</u>
LIABILITIES			
Accounts payable	119,942	77,610	197,552
Accrued wages	68,270	14,904	83,174
Accrual for compensated absences	98,170	24,528	122,698
Accrued interest payable	53,108	134,943	188,051
Unearned revenue	4,500	-	4,500
Customer deposits	-	97,060	97,060
Noncurrent liabilities:			
Due within one year	255,000	555,000	810,000
Due in more than one year	<u>4,380,000</u>	<u>9,330,000</u>	<u>13,710,000</u>
Total liabilities	<u>4,978,990</u>	<u>10,234,045</u>	<u>15,213,035</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,959,543	8,295,496	15,255,039
Restricted for debt service	640,453	112,609	753,062
Restricted for other purposes	173,855	-	173,855
Unrestricted	<u>405,375</u>	<u>1,992,501</u>	<u>2,397,876</u>
Total net assets	<u>\$ 8,179,226</u>	<u>\$ 10,400,606</u>	<u>\$ 18,579,832</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Legislative	\$ 26,648	\$ -	\$ -	\$ -	\$ (26,648)		\$ (26,648)
Municipal court	84,607	-	-	-	(84,607)		(84,607)
Executive/administration	283,460	-	-	-	(283,460)		(283,460)
Community development	146,795	32,964	-	-	(113,831)		(113,831)
Financial administration	157,033	-	-	-	(157,033)		(157,033)
Police	1,276,380	239,285	63,100	-	(973,995)		(973,995)
Fire protection	501,689	61,200	37,326	-	(403,163)		(403,163)
Highways and streets	397,148	-	1,000	-	(396,148)		(396,148)
Civic center	173,044	38,432	-	-	(134,612)		(134,612)
Non-departmental	241,875	-	-	-	(241,875)		(241,875)
Interest and fiscal agent fees	221,642	-	-	-	(221,642)		(221,642)
Total governmental activities	<u>3,510,321</u>	<u>371,881</u>	<u>101,426</u>	<u>-</u>	<u>(3,037,014)</u>		<u>(3,037,014)</u>
Business-type activities:							
Water and sewer	1,595,551	2,069,768	4,790	-		\$ 479,007	479,007
Sanitation	632,599	819,544	-	-		186,945	186,945
Airport	70,427	71,618	4,228	-		5,419	5,419
Total business-type activities	<u>2,298,577</u>	<u>2,960,930</u>	<u>9,018</u>	<u>-</u>		<u>671,371</u>	<u>671,371</u>
Total primary government	<u>\$ 5,808,898</u>	<u>\$ 3,332,811</u>	<u>\$ 110,444</u>	<u>\$ -</u>	<u>\$ (3,037,014)</u>	<u>\$ 671,371</u>	<u>\$ (2,365,643)</u>
General revenues							
Property taxes, levied for general purposes					1,028,766	-	1,028,766
Property taxes, levied for debt service					573,601	-	573,601
Sales taxes					897,205	-	897,205
Sales taxes for Economic Development					448,609	-	448,609
Franchise taxes					213,583	-	213,583
Other taxes					37,161	-	37,161
Penalty and interest					36,067	-	36,067
Investment earnings					7,791	12,838	20,629
Miscellaneous					69,987	-	69,987
Sale of assets					51,675	(1,929)	49,746
Transfers in (out)					(79,029)	79,029	-
Total general revenues and transfers					<u>3,285,416</u>	<u>89,938</u>	<u>3,375,354</u>
Change in net assets					248,402	761,309	1,009,711
Net assets - beginning					<u>7,930,824</u>	<u>9,639,297</u>	<u>17,570,121</u>
Net assets - ending					<u>\$ 8,179,226</u>	<u>\$ 10,400,606</u>	<u>\$ 18,579,832</u>

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

CITY OF GILMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and cash equivalents	\$ 505,915	\$ 5,123	\$ 114,146	\$ 195,583	\$ 820,767
Investments	-	-	333,853	-	333,853
Receivables:					
Taxes	233,728	-	-	-	233,728
Due from other funds	4,000	270,817	34,147	-	308,964
Notes receivable	-	-	-	36,460	36,460
Other receivable	25,655	-	-	-	25,655
TOTAL ASSETS	\$ 769,298	\$ 275,940	\$ 482,146	\$ 232,043	\$ 1,759,427
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 111,603	\$ -	\$ -	\$ 8,099	\$ 119,702
Due to other funds	108,937	4,000	60,525	80,000	253,462
Payable to other governments	240	-	-	-	240
Unearned revenue	135,788	-	-	-	135,788
Accrued wages	66,790	-	-	1,480	68,270
Accrual for compensated absences	4,862	-	-	926	5,788
TOTAL LIABILITIES	428,220	4,000	60,525	90,505	583,250
FUND BALANCE					
Restricted for debt service	-	271,940	421,621	-	693,561
Restricted for other purposes	32,317	-	-	141,538	173,855
Unassigned	308,761	-	-	-	308,761
TOTAL FUND BALANCE	341,078	271,940	421,621	141,538	1,176,177
TOTAL LIABILITIES AND FUND BALANCE	\$ 769,298	\$ 275,940	\$ 482,146	\$ 232,043	\$ 1,759,427

(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, 2012

Total fund balances - governmental funds balance sheet	\$ 1,176,177
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.	11,390,857
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	131,288
Liabilities for bond principal which are not due in the current period are not reported in the funds.	(4,635,000)
Unamortized premiums and discounts on issuance of bonds are not reported in the funds.	22,168
Unamortized debt issuance costs are not reported in the funds.	181,518
Liabilities for accrued interest which are not due in the current period are not reported in the funds.	(53,108)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(92,382)
Court fines receivable unavailable to pay for current period expenditures are not reported in the funds.	<u>57,708</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ 8,179,226</u></u>

(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, 2012

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,077,961	\$ 573,601	\$ -	\$ -	\$ 1,651,562
Penalty and interest	23,369	12,698	-	-	36,067
Sales tax	897,205	-	448,609	-	1,345,814
Franchise taxes	213,583	-	-	-	213,583
Other taxes	37,161	-	-	-	37,161
Fines and forfeitures	227,275	-	-	2,348	229,623
Licenses and permits	32,964	-	-	-	32,964
Intergovernmental revenue and grants	166,497	-	-	1,000	167,497
Investment income	1,306	512	4,429	1,544	7,791
Rents and royalties	8,102	-	-	30,330	38,432
Proceeds of asset sales	51,675	-	-	-	51,675
Donations	-	-	-	1,600	1,600
Other revenue	58,414	-	-	9,974	68,388
TOTAL REVENUES	2,795,512	586,811	453,038	46,796	3,882,157
EXPENDITURES:					
Legislative	24,678	-	-	-	24,678
Municipal court	78,069	-	-	-	78,069
Executive/administration	260,619	-	-	-	260,619
Community development	136,029	-	-	-	136,029
Financial administration	145,057	-	-	-	145,057
Police	1,267,483	-	-	5,078	1,272,561
Fire protection	476,032	-	-	-	476,032
Highways and streets	373,562	-	-	1,000	374,562
Civic center	-	-	-	111,216	111,216
Non-departmental	174,395	-	67,291	189	241,875
Debt service -principal	-	110,000	135,000	-	245,000
-interest	-	21,040	190,700	-	211,740
-fees	-	1,881	600	-	2,481
TOTAL EXPENDITURES	2,935,924	132,921	393,591	117,483	3,579,919
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(140,412)	453,890	59,447	(70,687)	302,238
OTHER FINANCING SOURCES (USES):					
Transfers in	332,239	99,863	-	84,204	516,306
Transfers out	(43,513)	(551,823)	-	-	(595,336)
TOTAL OTHER FINANCING SOURCES (USES)	288,726	(451,960)	-	84,204	(79,030)
NET CHANGE IN FUND BALANCES	148,314	1,930	59,447	13,517	223,208
FUND BALANCE, OCTOBER 1, 2011	192,764	270,010	362,174	128,021	952,969
FUND BALANCE, SEPTEMBER 30, 2012	\$ 341,078	\$ 271,940	\$ 421,621	\$ 141,538	\$ 1,176,177

(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, 2012

Net change in fund balances - total governmental funds	\$ 223,208
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	196,915
The depreciation of capital assets used in governmental activities is not reported in the funds.	(368,279)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(49,195)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	245,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(9,921)
(Increase) decrease in accrued interest from beginning of period to end of period.	2,500
Increase (decrease) in court fines receivable.	4,791
(Increase) decrease in accrual for compensated absences.	<u>3,383</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 248,402</u>

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

CITY OF GILMER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 672,404	\$ 415,763	\$ 26,808	\$ 1,114,975
Investments	894,525	-	-	894,525
Accounts receivable, net	300,281	103,066	-	403,347
Capitalized debt issuance costs	342,310	-	-	342,310
Premium on issuance costs	(57,161)	-	-	(57,161)
Due from other funds	99,719	154,790	-	254,509
Total current assets	<u>2,252,078</u>	<u>673,619</u>	<u>26,808</u>	<u>2,952,505</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	96,810	-	-	96,810
Capital assets:				
Land	4,266,667	230,484	28,013	4,525,164
Land improvements	3,558,647	-	1,538,367	5,097,014
Infrastructure	13,694,237	-	-	13,694,237
Construction in progress	5,250	-	-	5,250
Buildings	162,453	-	815,817	978,270
Equipment and furniture	607,389	-	103,065	710,454
Less accumulated depreciation	(6,690,671)	-	(424,371)	(7,115,042)
Total noncurrent assets	<u>15,700,782</u>	<u>230,484</u>	<u>2,060,891</u>	<u>17,992,157</u>
TOTAL ASSETS	<u>17,952,860</u>	<u>904,103</u>	<u>2,087,699</u>	<u>20,944,662</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	26,120	50,107	1,383	77,610
Wages payable	14,426	478	-	14,904
Accrual for compensated absences	23,879	649	-	24,528
Accrued interest payable	134,943	-	-	134,943
Due to other funds	247,750	-	62,261	310,011
Customer deposits	96,810	-	250	97,060
Bonds, notes, and loans payable	555,000	-	-	555,000
Total current liabilities	<u>1,098,928</u>	<u>51,234</u>	<u>63,894</u>	<u>1,214,056</u>
Noncurrent liabilities:				
Bonds, notes, and loans payable	9,330,000	-	-	9,330,000
TOTAL LIABILITIES	<u>10,428,928</u>	<u>51,234</u>	<u>63,894</u>	<u>10,544,056</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,004,121	230,484	2,060,891	8,295,496
Restricted for debt service	112,609	-	-	112,609
Unrestricted	1,407,202	622,385	(37,086)	1,992,501
TOTAL NET ASSETS	<u>\$ 7,523,932</u>	<u>\$ 852,869</u>	<u>\$ 2,023,805</u>	<u>\$ 10,400,606</u>

(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, 2012

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
OPERATING REVENUES:				
Charges for water services	\$ 1,227,186	\$ -	\$ -	\$ 1,227,186
Charges for sewerage services	695,772	-	-	695,772
Charges for sanitation services	-	710,540	-	710,540
Penalties	25,052	-	-	25,052
Rents and royalties	12,600	-	71,618	84,218
Franchise fees	-	91,979	-	91,979
Licenses and permits	-	2,648	-	2,648
Other revenue	109,158	14,377	-	123,535
TOTAL OPERATING REVENUES	2,069,768	819,544	71,618	2,960,930
OPERATING EXPENSES:				
Salaries and employee benefits	427,643	14,691	-	442,334
Contractual services	25,155	607,892	2,470	635,517
Utilities	116,256	-	9,368	125,624
Repairs and maintenance	98,135	-	4,947	103,082
Supplies and other expenses	162,786	-	2,994	165,780
Insurance	4,540	-	3,284	7,824
Bad debts	43,198	10,016	-	53,214
Depreciation	266,352	-	47,364	313,716
TOTAL OPERATING EXPENSES	1,144,065	632,599	70,427	1,847,091
OPERATING INCOME	925,703	186,945	1,191	1,113,839
NONOPERATING REVENUES (EXPENSES)				
Interest and investment revenue	11,294	1,459	85	12,838
Operating grants	4,790	-	4,228	9,018
Interest expense	(451,486)	-	-	(451,486)
Debt service expenses	(1,929)	-	-	(1,929)
TOTAL NONOPERATING REVENUES (EXPENSES)	(437,331)	1,459	4,313	(431,559)
Income before contributions and transfers	488,372	188,404	5,504	682,280
Transfers in	551,823	-	15,793	567,616
Transfers out	(328,184)	(160,403)	-	(488,587)
Income after contributions and transfers	712,011	28,001	21,297	761,309
CHANGE IN NET ASSETS	712,011	28,001	21,297	761,309
TOTAL NET ASSETS - BEGINNING	6,811,921	824,868	2,002,508	9,639,297
TOTAL NET ASSETS - ENDING	\$ 7,523,932	\$ 852,869	\$ 2,023,805	\$ 10,400,606

(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, 2012

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from user charges	\$ 1,953,670	\$ 702,496	\$ 75,115	\$ 2,731,281
Other operating revenue	121,758	106,356	-	228,114
Cash payments to employees for services	(423,586)	(14,343)	-	(437,929)
Cash payments for contracted services	(25,155)	(605,190)	(2,470)	(632,815)
Cash payments to suppliers	(188,175)	-	(2,525)	(190,700)
Cash payments for other operating expenses	(218,931)	-	(17,599)	(236,530)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,219,581	189,319	52,521	1,461,421
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers to other funds	(328,184)	(160,403)	-	(488,587)
Transfers from other funds	551,823	-	15,793	567,616
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	223,639	(160,403)	15,793	79,029
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(777,527)	-	-	(777,527)
Payments on bonds payable	(535,000)	-	-	(535,000)
Interest paid on bonds payable	(449,085)	-	-	(449,085)
Capital contributions and grants	4,790	-	4,228	9,018
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,756,822)	-	4,228	(1,752,594)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of certificates of deposit	(500,000)	-	-	(500,000)
Maturities of certificates of deposit	158,549	-	-	158,549
Interest on investments	6,988	1,459	85	8,532
Interfund loans collected (funded)	74,307	(34,000)	(64,642)	(24,335)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(260,156)	(32,541)	(64,557)	(357,254)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(573,758)	(3,625)	7,985	(569,398)
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2011	1,246,160	419,387	18,824	1,684,371
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2012	\$ 672,402	\$ 415,762	\$ 26,809	\$ 1,114,973
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 925,703	\$ 186,945	\$ 1,191	\$ 1,113,839
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	266,352	-	47,364	313,716
(Increase) decrease in accounts receivable	48,858	(676)	3,497	51,679
Increase (decrease) in accounts payable	(25,389)	2,702	469	(22,218)
Increase (decrease) in accrued wages	4,057	348	-	4,405
Total adjustments	293,878	2,374	51,330	347,582
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,219,581	\$ 189,319	\$ 52,521	\$ 1,461,421

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

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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. All sales tax revenues produced by the EDC are pledged to debt service on Sales Tax Revenue Bonds.

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.

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.

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.

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 BALANCES - GOVERNMENTAL FUNDS

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the general fund.

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, then unassigned funds.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. In the general fund, the City has a policy to maintain a minimum of two months of operating expenses in unassigned fund balance. At September 30, 2012, the City had achieved approximately 1.25 months of operating expenses in its unassigned fund balance.

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).

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.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

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>
None	N/A

Deficit Fund Balance 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	N/A	N/A

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, 2011 upon which the 2012 fiscal-year levy was based, was \$261,919,610 and the tax levy was set at \$.6314 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, 2012, for the fiscal 2012 tax levy were 96.68 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2012, were \$263,281.

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, 2012 is \$131,993.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Land	\$ 6,330,697	\$ -	\$ -	\$ 6,330,697
Infrastructure	3,920,298	-	-	3,920,298
Buildings and Improvements	3,769,946	48,468	-	3,818,414
Machinery, Furniture and Equipment	2,125,489	148,447	(108,516)	2,165,420
Totals at Historic Cost	<u>16,146,430</u>	<u>196,915</u>	<u>(108,516)</u>	<u>16,234,829</u>
Less accumulated depreciation for:				
Infrastructure	(2,233,900)	(95,075)	-	(2,328,975)
Buildings and Improvements	(1,151,745)	(125,345)	-	(1,277,090)
Machinery, Furniture and Equipment	(1,198,564)	(147,859)	108,516	(1,237,907)
Total accumulated depreciation	<u>(4,584,209)</u>	<u>(368,279)</u>	<u>108,516</u>	<u>(4,843,972)</u>
Governmental activities capital assets, net	<u>\$ 11,562,221</u>	<u>\$ (171,364)</u>	<u>\$ -</u>	<u>\$ 11,390,857</u>
<u>Business-type activities:</u>				
Land	\$ 4,525,164	\$ -	\$ -	\$ 4,525,164
Construction in progress	55,114	5,250	(55,114)	5,250
Total capital assets not being depreciated	<u>4,580,278</u>	<u>5,250</u>	<u>(55,114)</u>	<u>4,530,414</u>
Land Improvements	5,097,014	-	-	5,097,014
Infrastructure	13,093,959	600,279	-	13,694,238
Buildings and Improvements	978,270	-	-	978,270
Machinery, Furniture and Equipment	483,341	227,112	-	710,453
Total capital assets being depreciated	<u>19,652,584</u>	<u>827,391</u>	<u>-</u>	<u>20,479,975</u>

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Less accumulated depreciation for:				
Land Improvements	(1,133,841)	(79,467)	-	(1,213,308)
Infrastructure	(5,093,336)	(130,891)	-	(5,224,227)
Buildings and Improvements	(171,035)	(19,951)	-	(190,986)
Machinery, Furniture and Equipment	(403,115)	(83,407)	-	(486,522)
Total accumulated depreciation	<u>(6,801,327)</u>	<u>(313,716)</u>	<u>-</u>	<u>(7,115,043)</u>
 Total capital assets being depreciated, net	 <u>12,851,257</u>	 <u>513,675</u>	 <u>-</u>	 <u>13,364,932</u>
 Business-type activities capital assets, net	 <u>\$ 17,431,535</u>	 <u>\$ 518,925</u>	 <u>\$ (55,114)</u>	 <u>\$ 17,895,346</u>

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

Governmental activities:		
Legislative	\$	1,970
Municipal Court		6,233
Executive/Administration		20,809
Community Development		10,861
Financial Administration		11,582
Police		101,605
Fire Protection		27,068
Highways and Streets		124,981
Civic Center		63,170
Total depreciation expense - governmental activities		<u>368,279</u>
 Business-type activities:		
Water and sewer		266,352
Airport		47,364
Total depreciation expense - business-type activities		<u>313,716</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2012, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Obligations of the City of Gilmer:					
General obligation bonds	\$ 470,000	\$ -	\$ 110,000	\$ 360,000	\$ 115,000
Accrual for compensated absences	95,765	-	2,503	93,262	-
Total Obligations of the City of Gilmer	<u>565,765</u>	<u>-</u>	<u>112,503</u>	<u>453,262</u>	<u>115,000</u>
Obligations of Economic Development Corp:					
Sales tax revenue bonds	4,410,000	-	135,000	4,275,000	140,000
Total Governmental Activities	<u>\$ 4,975,765</u>	<u>\$ -</u>	<u>\$ 247,503</u>	<u>\$ 4,728,262</u>	<u>\$ 255,000</u>
 Business-type Activities:					
Revenue bonds	\$ 4,910,000	\$ -	\$ 255,000	\$ 4,655,000	\$ 150,000
Tax and revenue certificates of obligation	5,510,000	-	280,000	5,230,000	405,000
Total Business-Type Activities	<u>\$ 10,420,000</u>	<u>\$ -</u>	<u>\$ 535,000</u>	<u>\$ 9,885,000</u>	<u>\$ 555,000</u>
Total Long-term Debt	<u>\$ 15,395,765</u>	<u>\$ -</u>	<u>\$ 782,503</u>	<u>\$ 14,613,262</u>	<u>\$ 810,000</u>

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

	Balance as of September 30, 2012
Governmental Activities:	
<u>General Obligation Bonds</u>	
1999 General Obligation Bonds; principal plus interest varying from 3.35% to 4.40% due semi-annually through May 15, 2015	\$ 360,000
Total General Obligation Bonds	<u>360,000</u>
<u>Sales Tax and Revenue Bonds</u> (an obligation of Gilmer Economic Development Corporation, a component unit of the City of Gilmer)	
2011 Sales Tax and Revenue Bonds; principal plus interest varying from 4.0% to 5.0% due semi-annually through July 15, 2033.	4,275,000
Total Sales Tax and Revenue Bonds	<u>4,275,000</u>
Total Governmental Activities	<u>\$ 4,635,000</u>
Business-Type Activities:	
<u>Revenue Bonds</u>	
2010 Waterworks and Sewer System Refunding Bond; principal plus interest varying from 3.0% to 4.25% due semi-annually through July 1, 2034.	\$ 4,655,000
Total Revenue Bonds	<u>4,655,000</u>
<u>Tax and Revenue Certificates of Obligation</u>	
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	745,000
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	4,485,000
Total Tax and Revenue Certificates of Obligation	<u>5,230,000</u>
Total Business-Type Activities	<u>\$ 9,885,000</u>

Aggregate maturities of long-term debt subsequent to September 30, 2012 are as follows:

	Year Ending September 30	Principal	Interest	Total
Governmental activities:	2013	\$ 255,000	\$ 204,200	\$ 459,200
	2014	260,000	196,225	456,225
	2015	270,000	187,325	457,325
	2016	150,000	178,075	328,075
	2017	155,000	173,575	328,575
	2018-2022	860,000	768,139	1,628,139
	2023-2027	1,050,000	564,525	1,614,525
	2028-2032	1,330,000	282,000	1,612,000
	2033	305,000	15,250	320,250
		<u>\$ 4,635,000</u>	<u>\$ 2,569,314</u>	<u>\$ 7,204,314</u>
Business-type activities:	2013	\$ 555,000	\$ 429,485	\$ 984,485
	2014	575,000	403,686	978,686
	2015	605,000	376,810	981,810
	2016	445,000	348,361	793,361
	2017	455,000	331,535	786,535
	2018-2022	2,410,000	1,373,073	3,783,073
	2023-2027	2,935,000	800,540	3,735,540
	2028-2032	1,305,000	294,965	1,599,965
	2033-2034	600,000	38,463	638,463
		<u>\$ 9,885,000</u>	<u>\$ 4,396,918</u>	<u>\$ 14,281,918</u>

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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.

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2012 were as follows:

Due From	Due To					Totals
	General Fund	Debt Service	Economic Development	Sanitation Fund	Water & Sewer	
General Fund	\$ -	\$ -	\$ 34,147	\$ 74,790	\$ -	\$ 108,937
Economic Development	-	-	-	-	60,525	60,525
Debt Service	4,000	-	-	-	-	4,000
Other Governmental Funds	-	-	-	80,000	-	80,000
Water & Sewer Fund	-	247,750	-	-	-	247,750
Airport Fund	-	23,067	-	-	39,194	62,261
	<u>\$ 4,000</u>	<u>\$ 270,817</u>	<u>\$ 34,147</u>	<u>\$ 154,790</u>	<u>\$ 99,719</u>	<u>\$ 563,473</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, 2012 were as follows:

Transfer From	Transfer To					Totals
	General Fund	Debt Service	Other Governmental	Water & Sewer	Airport	
General Fund	\$ -	\$ -	\$ 43,513	\$ -	\$ -	\$ 43,513
Debt Service Fund	-	-	-	551,823	-	551,823
Water & Sewer Fund	328,184	-	-	-	-	328,184
Sanitation Fund	4,055	99,863	40,691	-	15,793	160,402
	<u>\$ 332,239</u>	<u>\$ 99,863</u>	<u>\$ 84,204</u>	<u>\$ 551,823</u>	<u>\$ 15,793</u>	<u>\$ 1,083,922</u>
	To fund current operations and pay off interfund debts	To fund debt payments	To fund grant match and current operations	To fund debt service requirements	To fund current operations	

NOTE 7 - EMPLOYEE BENEFITS

TEXAS MUNICIPAL RETIREMENT SYSTEM

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), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

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

	Plan Year 2011	Plan Year 2012
Employee Deposit Rate:	6%	6%
Matching Ratio (city to employee):	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

B. CONTRIBUTIONS

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined 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 serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2010	253,169	226,569	89%	26,600
2011	225,800	225,800	100%	-
2012	245,064	245,064	100%	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows.

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 years; closed period	27.1 years; closed period	26.1 years; closed period
Amortization Period for New	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

Funded Status and Funding Progress -

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ 4,963,570	\$ 6,449,233	77.0%	\$ 1,485,663	\$ 1,776,884	83.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

C. SUPPLEMENTAL DEATH BENEFITS FUND

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

The city's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$ 4,080, \$4,762 and \$4,591, respectively, which equaled the required contributions each year.

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

A. 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. At August 31, 2010, there were 199 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, 2010, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,167
Terminated participants entitled to benefits but not yet receiving them	2,106
Active participants (vested and nonvested)	4,371
	8,644

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.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

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.

B. 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.

C. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

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, 2010, total contributions (dues and prior service) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. 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, 2008 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010, 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, 2010 (\$502,941 to pay for part of the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years for up to 50 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$500,000 each year to pay for part of the System's administrative expenses. Expected contributions for the fiscal year ended August 31, 2011 are less than the contributions required because of the lag time in between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

NOTE 8 - RESTRICTED FUND BALANCE

As of September 30, 2012, fund balances restricted for specific purposes were as follows:

General Fund		
	Hotel-Motel tax	\$ 17,313
	Court Restricted Funds	15,004
		<u>\$ 32,317</u>
Other Governmental Funds		
	Police Dept Seizure Fund	\$ 3,002
	Police Officer Fund	22
	HOME Texas Fund	11,812
	Civic Center	40,248
	Splashpad Construction Fund	1,600
	USDA Loan Program	84,229
	Police Explorers' Group	625
		<u>\$ 141,538</u>

NOTE 9 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2012, the carrying amounts of the City's bank accounts were \$2,032,552 and the balances on deposit were \$2,042,513. During the year ended September 30, 2012, deposits were not entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name during a period from late January to mid-March, 2012. The City's deposits were fully insured and collateralized at year-end.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 practices, management reports, and establishment of appropriate policies, the City adhered 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, 2012, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Various	\$ 1,228,378
Total Investments		<u>\$ 1,228,378</u>

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
- 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.

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

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.

NOTE 11 - 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 of deferred compensation plan assets was \$228,650 at September 30, 2012.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 19, 2013, the date on which the financial statements were available to be issued.

On January 1, 2013, the City issued General Obligation Refunding Bonds, Series 2013, in the amount of \$4,250,000. Proceeds of the bonds will be used to refund certain outstanding obligations of the City for debt service savings and to pay the costs related to the issuance of the Bonds.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GILMER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,080,885	\$ 1,080,885	\$ 1,077,961	\$ (2,924)
Penalty and interest	22,250	22,250	23,369	1,119
Sales tax	828,849	828,849	897,205	68,356
Franchise taxes	221,750	221,750	213,583	(8,167)
Fines and forfeitures	259,900	259,900	227,275	(32,625)
Licenses and permits	17,550	17,550	32,964	15,414
Other taxes	35,000	35,000	37,161	2,161
Investment income	3,000	3,000	1,306	(1,694)
Rents and royalties	16,000	16,000	8,102	(7,898)
Proceeds of asset sales	-	40,872	51,675	10,803
Intergovernmental revenues and grants	86,053	149,063	166,497	17,434
Miscellaneous	22,800	41,946	58,414	16,468
TOTAL REVENUES	<u>2,594,037</u>	<u>2,717,065</u>	<u>2,795,512</u>	<u>78,447</u>
EXPENDITURES:				
Legislative	22,188	22,188	24,678	(2,490)
Municipal court	79,289	79,289	78,069	1,220
Executive/administration	273,021	273,021	260,619	12,402
Community development	132,130	125,034	136,029	(10,995)
Financial administration	140,673	143,898	145,057	(1,159)
Police	1,212,019	1,276,162	1,267,483	8,679
Fire protection	521,081	521,081	476,032	45,049
Highways and streets	366,058	396,727	373,562	23,165
Non-departmental	393,688	409,904	174,395	235,509
TOTAL EXPENDITURES	<u>3,140,147</u>	<u>3,247,304</u>	<u>2,935,924</u>	<u>311,380</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(546,110)	(530,239)	(140,412)	389,827
OTHER FINANCING SOURCES (USES):				
Transfers in	546,110	542,239	332,239	(210,000)
Transfers out	-	(12,000)	(43,513)	(31,513)
TOTAL OTHER FINANCING SOURCES (USES)	<u>546,110</u>	<u>530,239</u>	<u>288,726</u>	<u>(241,513)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	148,314	148,314
FUND BALANCE, OCTOBER 1, 2011	192,764	192,764	192,764	-
FUND BALANCE, SEPTEMBER 30, 2012	<u>\$ 192,764</u>	<u>\$ 192,764</u>	<u>\$ 341,078</u>	<u>\$ 148,314</u>

CITY OF GILMER, TEXAS
 ECONOMIC DEVELOPMENT FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Sales tax	\$ 414,425	\$ 414,425	\$ 448,609	\$ 34,184
Investment income	1,500	1,500	4,429	2,929
TOTAL REVENUES	<u>415,925</u>	<u>415,925</u>	<u>453,038</u>	<u>37,113</u>
EXPENDITURES:				
Non-departmental	62,164	62,164	67,291	(5,127)
Debt service - principal	135,000	135,000	135,000	-
Debt service - interest and other charges	190,700	190,700	191,300	(600)
TOTAL EXPENDITURES	<u>387,864</u>	<u>387,864</u>	<u>393,591</u>	<u>(5,727)</u>
EXCESS OF REVENUES OVER EXPENDITURES	28,061	28,061	59,447	31,386
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	28,061	28,061	59,447	31,386
FUND BALANCE, OCTOBER 1, 2011	<u>362,174</u>	<u>362,174</u>	<u>362,174</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2012	<u>\$ 390,235</u>	<u>\$ 390,235</u>	<u>\$ 421,621</u>	<u>\$ 31,386</u>

CITY OF GILMER, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial Value Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	3,231,396	4,927,312	65.6%	1,695,916	1,803,482	94.0%
12/31/2010	4,489,791	6,061,024	74.1%	1,571,233	1,744,193	90.1%
12/31/2011	4,963,570	6,449,233	77.0%	1,485,663	1,776,884	83.6%

CITY OF GILMER, TEXAS

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ¹ (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL Per Member Covered
	(a)	(b)	(b) - (a)	(a/b)	(c)	(b-a)/(c)
8/31/2006	42,268,305	58,082,828	15,814,523	72.80%	8,061	1,962
8/31/2008 ²	60,987,157	64,227,341	3,240,184	95.00%	8,254	393
8/31/2010 ³	64,113,803	81,264,230	17,150,427	78.90%	8,644	1,984

Notes:

- (1) The actuarial accrued liability is based upon the entry age actuarial cost method.
- (2) Changes in actuarial assumptions were reflected in this valuation.
- (3) Changes in an actuarial assumption and method were reflected in this valuation.

Fiscal Year Ended August 31,	<u>Schedule of Employer Contributions</u>		
	Annual Required Contribution	Actual Contribution	Percentage Contributed
	2005	\$ 3,206,300	\$ 1,606,759
2006	2,753,035	2,753,035	100%
2007	3,162,742	3,162,742	100%
2008	3,160,764	11,239,339	356%
2009	2,698,271	2,698,271	100%
2010	2,875,103	2,875,103	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 valuation follows.

Valuation date	August 31, 2010
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 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75% per year, net of investment expenses
Projected salary increases	N/A
*Includes inflation at	3.50%
Cost-of-living adjustments	None

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COMPLIANCE SECTION

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KAREN A. JACKS & ASSOCIATES, P.C.

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Sherry Davis, CPA

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, 2012, which collectively comprise the City of Gilmer, Texas' basic financial statements and have issued our report thereon dated March 19, 2013. 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 opinions 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, City Council, other within the entity, 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 19, 2013

CITY OF GILMER, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

Finding/Recommendation	Current Status
None.	

CITY OF GILMER, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

B. Financial Statement Findings

None

CITY OF GILMER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

None required.

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