

CITY OF GILMER, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Introductory Section

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City Of Gilmer, Texas
Annual Financial Report
For The Year Ended September 30, 2015

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CITY OF GILMER
LIST OF PRINCIPAL OFFICIALS
SEPTEMBER 30, 2015

Elected Officials

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

Appointed Officials

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

Financial Section

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KAREN A. JACKS & ASSOCIATES, P.C.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas ("the City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilmer, Texas as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, City of Gilmer, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016 on our consideration of City of Gilmer, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gilmer, Texas' internal control over financial reporting and compliance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
March 16, 2016

City of Gilmer, Texas

Management's Discussion and Analysis

For Year Ended September 30, 2015

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

FINANCIAL HIGHLIGHTS

- i The City of Gilmer's assets and deferred outflows of resources at September 30, 2015 totaled \$37,513,933 compared to its liabilities and deferred inflows of resources of \$18,680,516; the excess of assets over liabilities (net position) was \$18,833,417. However, with the recognition of net pension liability and the adjustments from deferred inflows and outflows related to pensions, total net position decreased over last year's by \$777,133, or 3.96% compared to the net position at September 30, 2014.
- i During the year ended September 30, 2015, the City of Gilmer retired the remainder of the 2001 Tax and Revenue bond not included in the 2013 refunding. The City also retired the 1999 General Obligation Bonds and the 2000 Combination Tax and Revenue Certificates of Obligation.
- i During the year ended September 30, 2015, the City issued Combined Tax and Revenue Certificates of Obligation Bonds, Series 2015, in the amount of \$3,560,000. The bond proceeds were to be used for paying all or a portion of the City's contractual obligations to be incurred in connection with constructing and improving the City's waterworks and sewer system including replacement of water meters, lift station improvements and expansion, replacement of screening, and the construction of a new water well; and constructing and improving streets.
- i During the year ended September 30, 2015, the City had incurred costs of the new water meters and some engineering costs associated with the projects to be funded by the 2015 Combined Tax and Revenue C/O Bonds, Series 2015. Commencement of the construction of these projects will begin in the year ended September 30, 2016.
- i During the year ended September 30, 2015, the City entered into a contract for a seal coat project of 10-12 miles of City streets. The total cost is estimated to be \$500,000. The project is to be funded with General Fund Reserves, the Capital Projects and Sanitation Funds. Work on this project will commence in the year ended September 30, 2016.
- i During the year ended September 30, 2015, the City of Gilmer completed the HOME grant that allowed the replacement of four uninhabitable homes with four new homes for city residents.
- i Total General Fund revenues were \$2,979,099 with expenditures of \$3,596,237. There were also net transfers into the General Fund from other funds of \$998,285, proceeds from a bond issuance of \$1,810,000 and a premium on bonds of \$40,179 which resulted in an increase of fund balance of \$2,231,326. At September 30, 2015 the General Fund had a fund balance of \$2,991,492.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of government’s financial position. In the case of the City of Gilmer, assets and deferred outflows of resources exceeded liabilities by \$18,833,417, as of September 30, 2015, a decrease of \$777,133 from the previous year.

The largest portion of the City’s net position, 88%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GILMER’S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and other assets	\$1,802,281	\$4,195,720	\$2,773,862	\$3,970,152	\$4,576,143	\$8,165,872
Capital assets	10,827,097	10,588,357	17,573,273	17,974,126	28,400,370	28,562,483
Total assets	12,629,378	14,784,077	20,347,135	21,944,278	32,976,513	36,728,355
Deferred outflows related to pensions	--	229,579	--	42,128	--	271,707
Loss on defeasance of debt	--	--	550,915	513,871	550,915	513,871
Total deferred outflows of resources	--	229,579	550,915	555,999	550,915	785,578
Current liabilities	554,411	621,446	955,305	1,475,955	1,509,716	2,097,401
Noncurrent liabilities, due in more than one year	3,829,943	6,518,280	8,577,221	9,944,007	12,407,164	16,462,287
Total liabilities	4,384,354	7,139,726	9,532,526	11,419,962	13,916,880	18,559,688
Deferred inflows related to pensions	--	102,079	--	18,749	--	120,828

Net position:

Capital assets	6,727,154	6,712,916	8,891,967	9,885,063	15,619,121	16,597,979
Restricted	700,632	2,551,895	107,964	108,512	808,596	2,660,407
Unrestricted	817,238	-1,492,960	2,365,593	1,067,991	3,182,831	-424,969
Total net position	\$8,245,024	\$7,771,851	\$11,365,524	\$11,061,566	\$19,610,548	\$18,833,417

Analysis of the City's Operations- Overall the City had a decrease in net position of \$777,131. Governmental activities decreased the net position by \$473,173 and net position from business-type activities decreased by \$303,958.

The following table provides a summary of the City's operations for the years ended September 30, 2015 and 2014.

CITY OF GILMER'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
REVENUES:						
PROGRAM REVENUES:						
Charges for services	\$292,131	\$400,584	\$2,837,372	\$2,772,382	\$3,129,503	\$3,172,966
Operating grants & contributions	12,486	--	6,146	6,420	18,632	6,420
Capital grants & contributions	353,777	29,000	--	141,668	353,777	170,668
GENERAL REVENUES:						
Property taxes, levied for general purposes	1,118,731	1,109,691	--	--	1,118,731	1,109,691
Property taxes, levied for debt services	577,406	593,646	--	--	577,406	593,646
Sales taxes	914,910	1,001,979	--	--	914,910	1,001,979
Sales tax for Economic Development	457,455	500,990	--	--	457,455	500,990
Franchise taxes	340,188	338,410	--	--	340,188	338,410
Other taxes	54,966	56,214	--	--	54,966	56,214
Penalty and interest	14,394	14,182	--	--	14,394	14,182
Miscellaneous revenue	46,771	68,479	--	--	46,771	68,479
Investment earnings	8,978	18,048	12,161	12,146	21,139	30,194
Loss on sale of equipment	--	-46,375	--	--	--	-46,375
Transfers in (out)	146,779	618,157	-146,779	-618,157	--	--
TOTAL REVENUES	4,338,972	4,703,005	2,708,900	2,314,459	7,047,872	7,017,464
EXPENSES:						
Legislative	33,858	34,075	--	--	33,858	34,075
Municipal court	92,623	107,479	--	--	92,623	107,479
Executive/administration	384,809	402,241	--	--	384,809	402,241
Community development	522,829	191,749	--	--	522,829	191,749
Financial administration	209,613	193,807	--	--	209,613	193,807
Police	1,473,490	1,444,778	--	--	1,473,490	1,444,778
Fire protection	548,983	623,093	--	--	548,983	623,093
Highways and streets	349,254	459,204	--	--	349,254	459,204
Civic center	174,461	169,737	--	--	174,461	169,737
Non departmental	256,151	291,159	--	--	256,151	291,159
Interest & fiscal agent fees	199,727	237,449	--	--	199,727	237,449
Water & sewer	--	--	1,591,831	1,703,410	1,591,831	1,703,410
Sanitation	--	--	632,674	652,295	632,674	652,295
Airport	--	--	66,338	69,340	66,338	69,340
TOTAL EXPENSES	4,245,798	4,154,771	2,290,843	2,425,045	6,536,641	6,579,816

CHANGES IN NET POSITION	93,174	548,234	418,057	-110,586	511,231	437,648
NET POSITION – BEGINNING	8,151,850	8,245,025	10,947,467	11,365,525	19,099,317	19,610,550
PRIOR PERIOD ADJUSTMENT	--	-1,021,408	--	-193,373	--	-1,214,781
NET POSITION - ENDING	\$8,245,024	\$7,771,851	\$11,365,524	\$11,061,566	\$19,610,548	\$18,833,417

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 \$3,785,772 which is an increase of \$2,322,565 from last fiscal year's balance of \$1,463,207. Of the current balance, \$1,106,046 constitutes unrestricted fund balance. The remainder of the fund balance is restricted by statute or its providers, such as bondholders (\$849,469), construction (\$1,765,563) or has been assigned by the City to express intent for a narrower purpose than general government obligations (\$64,694) and to indicate that it is not available for new spending because it has already been obligated for debt service or other restricted purposes, or assigned a specific City initiative.

Proprietary funds- The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the respective proprietary funds are Water and Sewer- \$832,342, Sanitation- \$167,670 and Airport \$67,979.

CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2015 amounts to \$28,562,483 (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	
	2014	2015	2014	2015	2014	2015
Land	\$6,330,697	\$6,330,697	\$4,525,164	\$4,604,585	\$10,855,861	\$10,935,282
Infrastructure	1,206,593	820,857	8,512,770	7,886,986	9,719,363	8,707,843
Buildings	2,394,630	2,415,846	748,299	731,144	3,142,929	3,146,990
Improvements, other than bldgs	--	--	3,744,384	3,819,657	3,744,384	3,819,657
Machinery & equip	895,176	781,341	42,657	382,846	937,833	1,164,187
Construction in progress	--	239,616	--	548,908	--	788,524
Total	\$10,827,096	\$10,588,357	\$17,573,274	\$17,974,126	\$28,400,370	\$28,562,483

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$15,725,000. Of this amount, \$1,810,000 comprises bonded debt backed by the full faith and credit of the government, while \$8,315,000 represents bonds secured solely by water and sewer revenues and \$1,750,000 represents Combination Tax and Revenue Certificates of Obligation which are secured by tax receipts as well as water and sewer revenue. The remainder amount of \$3,850,000 does not constitute an obligation of the City of Gilmer, but is reported herein as an obligation of its component unit, Gilmer Economic Development Corporation.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
General Obligation Bonds	\$125,000	\$1,810,000	--	--	\$125,000	\$1,810,000
Revenue Bonds Payable	--	--	8,520,000	8,315,000	\$8,520,000	\$8,315,000
Tax & Revenue CO	--	--	450,000	1,750,000	\$450,000	\$1,750,000
Premium (discount) on issuance of debt		40,179	262,221	282,712	\$262,221	\$282,712
Sub-total	\$125,000	\$1,850,179	\$9,232,221	\$10,347,712	\$9,357,221	\$12,157,712
Sales & Tax Revenue Bonds	3,995,000	3,850,000	--	--	\$3,995,000	\$3,850,000
Premium (discount) on issuance of debt	-20,057	-18,995	--	--	-20,057	-18,995
Sub-total	\$3,974,943	\$3,831,005	\$ --	\$ --	\$3,974,943	\$3,831,005
Total	\$4,099,943	\$5,681,184	\$9,232,221	\$10,347,712	\$13,332,164	\$15,988,717

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2015-2016 budget and rates. Sales tax receipts had shown an increase in fiscal year 2014-2015 over the previous two years. The city collected taxes on beer and wine sales but the total for the year was not material. The property tax rate for 2015-2016 remained at .625178/\$100.

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

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**CITY OF GILMER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

A-1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 5,081,296	\$ 877,646	\$ 5,958,942
Investments	555,528	889,973	1,445,501
Receivables (net of allowance for uncollectibles):			
Taxes	272,114	-	272,114
Accounts	-	385,220	385,220
Notes	27,852	-	27,852
Other	76,243	-	76,243
Internal balances	(1,817,313)	1,817,313	-
Capital assets (net of accumulated depreciation):			
Land	6,330,697	8,424,246	14,754,943
Infrastructure	820,857	7,886,985	8,707,842
Buildings and improvements	2,415,846	731,142	3,146,988
Furniture and equipment	781,341	382,845	1,164,186
Construction in progress	239,616	548,908	788,524
Total assets	<u>14,784,077</u>	<u>21,944,278</u>	<u>36,728,355</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	229,579	42,128	271,707
Loss on defeasance of debt	-	513,871	513,871
Total deferred outflows	<u>229,579</u>	<u>555,999</u>	<u>785,578</u>
LIABILITIES			
Accounts payable	82,864	610,203	693,067
Accrued wages	100,292	20,974	121,266
Accrual for compensated absences	109,925	27,414	137,339
Accrued interest payable	63,137	83,717	146,854
Unearned revenue	4,500	14,400	18,900
Customer deposits	6,500	109,247	115,747
Noncurrent liabilities:			
Due within one year	254,228	610,000	864,228
Due in more than one year	5,426,956	9,737,712	15,164,668
Net pension liability	1,091,324	206,295	1,297,619
Total liabilities	<u>7,139,726</u>	<u>11,419,962</u>	<u>18,559,688</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	102,079	18,749	120,828
Total deferred inflows	<u>102,079</u>	<u>18,749</u>	<u>120,828</u>
NET POSITION			
Net investment in capital assets	6,712,916	9,885,063	16,597,979
Restricted for debt service	616,367	108,512	724,879
Restricted for construction	1,765,563	-	1,765,563
Restricted for other purposes	169,965	-	169,965
Unrestricted	(1,492,960)	1,067,991	(424,969)
Total net position	<u>\$ 7,771,851</u>	<u>\$ 11,061,566</u>	<u>\$ 18,833,417</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, 2015**

A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Legislative	\$ 34,075	\$ -	\$ -	\$ -	\$ (34,075)		\$ (34,075)
Municipal court	107,479	-	-	-	(107,479)		(107,479)
Executive/administration	402,241	-	-	-	(402,241)		(402,241)
Community development	191,749	-	-	-	(191,749)		(191,749)
Financial administration	193,807	24,633	-	-	(169,174)		(169,174)
Police	1,444,778	264,957	-	29,000	(1,150,821)		(1,150,821)
Fire protection	623,093	60,809	-	-	(562,284)		(562,284)
Highways and streets	459,204	-	-	-	(459,204)		(459,204)
Civic center	169,737	50,185	-	-	(119,552)		(119,552)
Non-departmental	291,159	-	-	-	(291,159)		(291,159)
Interest and fiscal agent fees	237,449	-	-	-	(237,449)		(237,449)
Total governmental activities	<u>4,154,771</u>	<u>400,584</u>	<u>-</u>	<u>29,000</u>	<u>(3,725,187)</u>		<u>(3,725,187)</u>
Business-type activities:							
Water and sewer	1,703,410	1,947,614	-	-		\$ 244,204	244,204
Sanitation	652,295	759,832	-	-		107,537	107,537
Airport	69,340	64,936	6,420	141,668		143,684	143,684
Total business-type activities	<u>2,425,045</u>	<u>2,772,382</u>	<u>6,420</u>	<u>141,668</u>		<u>495,425</u>	<u>495,425</u>
Total primary government	<u>\$ 6,579,816</u>	<u>\$ 3,172,966</u>	<u>\$ 6,420</u>	<u>\$ 170,668</u>	<u>\$ (3,725,187)</u>	<u>\$ 495,425</u>	<u>\$ (3,229,762)</u>
General revenues							
Property taxes, levied for general purposes					1,109,691	-	1,109,691
Property taxes, levied for debt service					593,646	-	593,646
Sales taxes					1,001,979	-	1,001,979
Sales taxes for Economic Development					500,990	-	500,990
Franchise taxes					338,410	-	338,410
Other taxes					56,214	-	56,214
Penalty and interest					14,182	-	14,182
Investment earnings					18,048	12,146	30,194
Miscellaneous					68,479	-	68,479
Loss on asset disposition					(46,375)	-	(46,375)
Transfers in (out)					618,157	(618,157)	-
Total general revenues and transfers					<u>4,273,421</u>	<u>(606,011)</u>	<u>3,667,410</u>
Change in net position					548,234	(110,586)	437,648
Net position - beginning					8,245,025	11,365,525	19,610,550
Prior period adjustment					(1,021,408)	(193,373)	(1,214,781)
Net position - ending					<u>\$ 7,771,851</u>	<u>\$ 11,061,566</u>	<u>\$ 18,833,417</u>

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

**CITY OF GILMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

A-3

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 4,687,116	\$ 13,871	\$ 282,236	\$ 98,073	\$ 5,081,296
Investments	204,270	-	351,259	-	555,529
Receivables:					
Taxes	272,114	-	-	-	272,114
Due from other funds	-	-	37,810	-	37,810
Notes receivable	-	-	-	27,852	27,852
Other receivable	25,649	-	-	-	25,649
	\$ 5,189,149	\$ 13,871	\$ 671,305	\$ 125,925	\$ 6,000,250
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ 81,547	\$ -	\$ -	\$ 1,317	\$ 82,864
Due to other funds	1,849,451	-	5,672	-	1,855,123
Unearned revenue	4,500	-	-	6,500	11,000
Accrued wages	98,032	-	-	2,261	100,293
Accrual for compensated absences	5,443	-	-	1,071	6,514
	2,038,973	-	5,672	11,149	2,055,794
DEFERRED INFLOWS OF RESOURCES:					
Deferred property tax revenue	158,684	-	-	-	158,684
	158,684	-	-	-	158,684
FUND BALANCE:					
Restricted for debt service	-	13,871	665,633	-	679,504
Restricted for other purposes	55,189	-	-	114,776	169,965
Restricted for construction	1,765,563	-	-	-	1,765,563
Assigned	64,694	-	-	-	64,694
Unassigned	1,106,046	-	-	-	1,106,046
	2,991,492	13,871	665,633	114,776	3,785,772
TOTAL FUND BALANCE	2,991,492	13,871	665,633	114,776	3,785,772
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 5,189,149	\$ 13,871	\$ 671,305	\$ 125,925	\$ 6,000,250

(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 POSITION
SEPTEMBER 30, 2015

A-4

Total fund balances - governmental funds balance sheet	\$ 3,785,772
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported in the funds.	10,588,357
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	158,684
Liabilities for bond principal which are not due in the current period are not reported in the funds.	(5,660,000)
Unamortized discounts on issuance of bonds are not reported in the funds.	18,995
Liabilities for accrued interest which are not due in the current period are not reported in the funds.	(63,137)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(103,411)
Recognition of the City's net pension liability is not reported in the funds.	(1,091,324)
Deferred resource inflows related to the pension plans are not reported in the funds.	(102,079)
Deferred resource outflows related to the pension plans are not reported in the funds.	229,578
Bond premiums are amortized in the SNA but not in the funds.	(40,179)
Court fines receivable unavailable to pay for current period expenditures are not reported in the funds.	50,594
Rounding	1
Net position of governmental activities - statement of net position	\$ 7,771,851

(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, 2015

A-5

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,102,313	\$ 593,646	\$ -	\$ -	\$ 1,695,959
Penalty and interest	14,182	-	-	-	14,182
Sales tax	1,001,979	-	500,990	-	1,502,969
Franchise taxes	338,410	-	-	-	338,410
Other taxes	56,214	-	-	-	56,214
Fines and forfeitures	259,838	-	-	-	259,838
Licenses and permits	24,633	-	-	-	24,633
Intergovernmental revenue and grants	60,809	-	-	-	60,809
Investment income	11,690	258	4,774	1,326	18,048
Rents and royalties	12,516	-	-	37,668	50,184
Grants revenue	29,000	-	-	-	29,000
Other revenue	67,515	3,028	-	13,004	83,547
TOTAL REVENUES	2,979,099	596,932	505,764	51,998	4,133,793
EXPENDITURES:					
Legislative	29,248	-	-	-	29,248
Municipal court	92,867	-	-	-	92,867
Executive/administration	479,442	-	-	-	479,442
Community development	181,424	-	-	-	181,424
Financial administration	170,028	-	-	-	170,028
Police	1,483,840	-	-	1,124	1,484,964
Fire protection	544,512	-	-	-	544,512
Highways and streets	364,801	-	-	-	364,801
Civic center	-	-	-	148,204	148,204
Non-departmental	216,010	-	75,148	-	291,158
Debt service -principal	-	125,000	145,000	-	270,000
-interest	-	5,625	181,700	-	187,325
-fees	34,065	777	750	-	35,592
TOTAL EXPENDITURES	3,596,237	131,402	402,598	149,328	4,279,565
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(617,138)	465,530	103,166	(97,330)	(145,772)
OTHER FINANCING SOURCES (USES):					
Bond proceeds	1,810,000	-	-	-	1,810,000
Premium on issuance of debt	40,179	-	-	-	40,179
Transfers in	1,177,573	155,000	-	103,531	1,436,104
Transfers out	(179,288)	(626,650)	-	(12,008)	(817,946)
TOTAL OTHER FINANCING SOURCES (USES)	2,848,464	(471,650)	-	91,523	2,468,337
NET CHANGE IN FUND BALANCES	2,231,326	(6,120)	103,166	(5,807)	2,322,565
FUND BALANCE, OCTOBER 1, 2014	760,166	19,991	562,467	120,583	1,463,207
FUND BALANCE, SEPTEMBER 30, 2015	\$ 2,991,492	\$ 13,871	\$ 665,633	\$ 114,776	\$ 3,785,772

(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, 2015

A-6

Net change in fund balances - total governmental funds	\$ 2,322,565
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	472,026
Loss on asset disposition is not reported in the funds.	(46,375)
The proceeds of asset sales are reported in the funds but not in the SOA.	(15,067)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(649,323)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,378
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	270,000
Bond discounts are amortized in the SOA but not in the funds.	(1,062)
(Increase) decrease in accrued interest from beginning of period to end of period.	(13,470)
Increase (decrease) in court fines receivable.	5,119
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPL.	175,187
Unrecognized deferred inflows and outflows for the pension plans were amortized.	43,860
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(161,464)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,810,000)
Premiums on the issuance of bonds are amortized in the SOA but are reported as current resources in the funds.	(40,179)
(Increase) decrease in accrual for compensated absences.	(10,960)
Rounding	<u>(1)</u>
Change in net position of governmental activities - statement of activities	<u><u>\$ 548,234</u></u>

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

CITY OF GILMER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

A-7

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 643,254	\$ 56,042	\$ 69,353	\$ 768,649
Investments	889,973	-	-	889,973
Accounts receivable, net	271,767	113,453	-	385,220
Due from other funds	1,750,448	66,865	-	1,817,313
Total current assets	<u>3,555,442</u>	<u>236,360</u>	<u>69,353</u>	<u>3,861,155</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	108,997	-	-	108,997
Capital assets:				
Land	4,266,666	230,483	28,013	4,525,162
Land improvements	3,558,648	-	1,632,667	5,191,315
Infrastructure	14,132,874	-	-	14,132,874
Buildings	129,125	-	815,817	944,942
Equipment and furniture	643,893	-	128,914	772,807
Construction in progress	548,908	-	-	548,908
Less accumulated depreciation	(7,651,304)	-	(490,578)	(8,141,882)
Total noncurrent assets	<u>15,737,807</u>	<u>230,483</u>	<u>2,114,833</u>	<u>18,083,123</u>
TOTAL ASSETS	<u>19,293,249</u>	<u>466,843</u>	<u>2,184,186</u>	<u>21,944,278</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows related to pensions	40,706	1,422	-	42,128
Loss on defeasance of debt	513,871	-	-	513,871
TOTAL DEFERRED OUTFLOWS	<u>554,577</u>	<u>1,422</u>	<u>-</u>	<u>555,999</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	547,289	61,790	1,124	610,203
Wages payable	20,306	668	-	20,974
Accrual for compensated absences	27,357	57	-	27,414
Accrued interest payable	83,717	-	-	83,717
Unearned revenue	14,400	-	-	14,400
Customer deposits	108,997	-	250	109,247
Bonds, notes, and loans payable	610,000	-	-	610,000
Total current liabilities	<u>1,412,066</u>	<u>62,515</u>	<u>1,374</u>	<u>1,475,955</u>
Noncurrent liabilities:				
Bonds, notes, and loans payable	9,737,712	-	-	9,737,712
Net pension liability	199,332	6,963	-	206,295
Total noncurrent liabilities	<u>9,937,044</u>	<u>6,963</u>	<u>-</u>	<u>9,944,007</u>
TOTAL LIABILITIES	<u>11,349,110</u>	<u>69,478</u>	<u>1,374</u>	<u>11,419,962</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to pensions	18,116	633	-	18,749
NET POSITION:				
Net investment in capital assets	7,539,746	230,484	2,114,833	9,885,063
Restricted for debt service	108,512	-	-	108,512
Unrestricted	832,342	167,670	67,979	1,067,991
TOTAL NET POSITION	<u>\$ 8,480,600</u>	<u>\$ 398,154</u>	<u>\$ 2,182,812</u>	<u>\$ 11,061,566</u>

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

CITY OF GILMER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
OPERATING REVENUES:				
Charges for water services	\$ 1,159,138	\$ -	\$ -	\$ 1,159,138
Charges for sewerage services	651,888	-	-	651,888
Charges for sanitation services	-	740,030	-	740,030
Penalties	28,541	-	-	28,541
Rents and royalties	7,200	-	64,936	72,136
Licenses and permits	-	2,464	-	2,464
Other revenue	100,847	17,338	-	118,185
TOTAL OPERATING REVENUES	1,947,614	759,832	64,936	2,772,382
OPERATING EXPENSES:				
Salaries and employee benefits	436,902	13,989	-	450,891
Contractual services	68,126	638,306	8,376	714,808
Utilities	147,477	-	9,757	157,234
Repairs and maintenance	252,533	-	2,899	255,432
Supplies and other expenses	75,713	-	143	75,856
Insurance	24,335	-	3,317	27,652
Depreciation	344,527	-	44,848	389,375
TOTAL OPERATING EXPENSES	1,349,613	652,295	69,340	2,071,248
OPERATING INCOME	598,001	107,537	(4,404)	701,134
NONOPERATING REVENUES (EXPENSES):				
Interest and investment revenue	11,509	388	249	12,146
Operating grants	-	-	148,088	148,088
Interest expense	(301,410)	-	-	(301,410)
Debt issuance costs and fees	(52,385)	-	-	(52,385)
TOTAL NONOPERATING REVENUES (EXPENSES)	(342,286)	388	148,337	(193,561)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	255,715	107,925	143,933	507,573
Transfers in	702,407	-	-	702,407
Transfers out	(879,202)	(441,363)	-	(1,320,565)
INCOME AFTER CONTRIBUTIONS AND TRANSFERS	78,920	(333,438)	143,933	(110,585)
CHANGE IN NET POSITION	78,920	(333,438)	143,933	(110,585)
NET POSITION - BEGINNING	8,588,526	738,119	2,038,879	11,365,524
Prior period adjustment	(186,846)	(6,527)	-	(193,373)
NET POSITION - ENDING	\$ 8,480,600	\$ 398,154	\$ 2,182,812	\$ 11,061,566

(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, 2015**

A-9

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,883,547	\$ 737,026	\$ 65,190	\$ 2,685,763
Other operating revenue	108,047	17,338	-	125,385
Cash payments to employees for services	(435,630)	(14,932)	-	(450,562)
Cash payments for contracted services	(68,126)	(634,591)	(8,376)	(711,093)
Cash payments to suppliers	(76,298)	-	(1,069)	(77,367)
Cash payments for other operating expenses	(424,345)	-	(10,504)	(434,849)
NET CASH PROVIDED BY OPERATING ACTIVITIES	987,195	104,841	45,241	1,137,277
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers to other funds	(879,202)	(441,363)	-	(1,320,565)
Transfers from other funds	702,407	-	-	702,407
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(176,795)	(441,363)	-	(618,158)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(91,112)	-	(173,337)	(264,449)
Principal payments on bonds payable	(655,000)	-	-	(655,000)
Interest paid on bonds payable	(292,312)	-	-	(292,312)
Debt issuance costs paid	(3,563)	-	-	(3,563)
Debt proceeds	1,750,000	-	-	1,750,000
Capital contributions and grants	-	-	148,088	148,088
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	708,013	-	(25,249)	682,764
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	11,509	388	249	12,146
Interfund loans collected (funded)	(1,713,319)	80,000	-	(1,633,319)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,701,810)	80,388	249	(1,621,173)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(183,397)	(256,134)	20,241	(419,290)
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2014	826,651	312,176	49,112	1,187,939
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2015	\$ 643,254	\$ 56,042	\$ 69,353	\$ 768,649
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 598,001	\$ 107,537	\$ (4,404)	\$ 701,134
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	344,527	-	44,848	389,375
(Increase) decrease in accounts receivable	29,580	(5,468)	254	24,366
(Increase) decrease in prepaid expenses	-	-	5,469	5,469
Increase (decrease) in accounts payable	(585)	3,715	(926)	2,204
Increase (decrease) in accrued wages	5,775	(312)	-	5,463
Change in net pension liability	(10,104)	(352)	-	(10,456)
Increase (decrease) in unearned revenue	14,400	-	-	14,400
Increase (decrease) in accrual for compensated absences	5,601	(279)	-	5,322
Total adjustments	389,194	(2,696)	49,645	436,143
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 987,195	\$ 104,841	\$ 45,241	\$ 1,137,277

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

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

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

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

Based on these criteria, the City has one component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the Codification.

Blended Component Unit

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major enterprise funds:

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

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

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

Statutes authorize the City to invest in certificates of deposit and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

Investments are recorded at cost, which approximates fair value. All investments are short-term and have a maturity date of one year or less.

b. Property Taxes

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

The City may assess penalties and interest. The assessment ratio of the City is 100% of market value. The assessed value for the roll of October 1, 2014, upon which the 2015 fiscal-year levy was based, was \$273,807,961. The tax assessment of October 1, 2014 sets a tax levy at \$.625178 per \$100 of assessed valuation at 100% of assumed market value. The 2015 fiscal year tax levy was \$1,712,168.

Taxes were due in January following the October 1 statement date. Tax collections during the fiscal year ended September 30, 2015, for the fiscal 2014 tax levy were 99.03% of the total tax levy for that year.

Delinquent taxes as of September 30, 2015, were \$319,618.

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, 2015 is \$160,934.

c. Inventories and Prepaid Items

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

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

CITY OF GILMER, TEXAS
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d. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

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

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

e. Receivable and Payable Balances

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

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

f. Pensions

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

g. Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the statements of financial position will sometimes report a separate section for

CITY OF GILMER, TEXAS
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deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City reported deferred inflow of resources related to pensions in the government-wide and proprietary fund statements of net position. The City reported deferred inflow of resources related to governmental fund revenues that are not recognized until available under the modified accrual basis of accounting. Accordingly, deferred property taxes are reported in the governmental funds balance sheet as deferred inflows.

h. Compensated Absences

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay for it. Accumulated vacation leave of proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

i. Interfund Activity

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

j. Estimates

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

k. Restricted Assets

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

l. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and an amendment of the budget, but may also be accomplished by a formal resolution. Committed fund balance amounts differ from restricted balances in

CITY OF GILMER, TEXAS
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that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

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

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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 expenditures in unassigned fund balance. At September 30, 2015, the City had achieved approximately 3.69 months of operating expenditures in its unassigned fund balance.

m. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is required.

n. Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

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.

CITY OF GILMER, TEXAS
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5. Change in Accounting Policies

In June, 2012 the Governmental Accounting Standards Board (GASB) issued Statement No. 68, "Accounting and Financial Reporting for Pensions," which is effective for fiscal years beginning after June 15, 2014. The City has implemented the provisions of this Statement for the year ended September 30, 2015.

The Statement requires numerous new pension disclosures in the notes to the financial statements and new 10-year, pension-related charts as required supplementary information. Also, for the first time the City is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its pension expense, deferred outflows of resources and deferred inflows of resources related to pensions and net pension liability.

B. Compliance and Accountability

1. 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 reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position 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	Not applicable	Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2015, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,958,942 and the bank balance was \$6,013,562. The City's cash deposits at September 30, 2015 and during the year ended September 30, 2015, were not entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$7,323,258.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$8,113,424 and occurred during the month of May, 2015.

CITY OF GILMER, TEXAS
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- d. Total amount of FDIC coverage at the time of the largest combined balance was \$750,000.

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 be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2015 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Various, 12/16/15 - 6/20/16	\$ 1,445,501
Total Investments		<u>\$ 1,445,501</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 was not exposed to concentration of credit risk.

CITY OF GILMER, TEXAS
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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

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.

D. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 6,330,697	\$ --	\$ --	\$ 6,330,697
Construction in progress	--	239,616	--	239,616
Total capital assets not being depreciated	<u>6,330,697</u>	<u>239,616</u>	<u>--</u>	<u>6,570,313</u>
Capital assets being depreciated:				
Infrastructure	3,978,620	--	--	3,978,620
Buildings and improvements	3,880,916	170,884	326,962	3,724,838
Machinery, Furniture and Equipment	2,374,957	61,526	77,072	2,359,411
Total capital assets being depreciated	<u>10,234,493</u>	<u>232,410</u>	<u>404,034</u>	<u>10,062,869</u>
Less accumulated depreciation for:				
Infrastructure	(2,772,028)	(385,735)	--	(3,157,763)
Buildings and Improvements	(1,486,288)	(89,474)	(266,770)	(1,308,992)
Machinery, Furniture and Equipment	(1,479,778)	(174,114)	(75,822)	(1,578,070)
Total accumulated depreciation	<u>(5,738,094)</u>	<u>(649,323)</u>	<u>(342,592)</u>	<u>(6,044,825)</u>
Total capital assets being depreciated, net	<u>4,496,399</u>	<u>(416,913)</u>	<u>61,442</u>	<u>4,018,044</u>
Governmental activities capital assets, net	<u>\$ 10,827,096</u>	<u>\$ (177,297)</u>	<u>\$ 61,442</u>	<u>\$ 10,588,357</u>

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,525,163	\$ 79,422	\$ --	\$ 4,604,585
Construction in progress	--	548,908	--	548,908
Total capital assets not being depreciated	<u>4,525,163</u>	<u>628,330</u>	<u>--</u>	<u>5,153,493</u>
Capital assets being depreciated:				
Land Improvements	5,111,892	--	--	5,111,892
Infrastructure	14,064,890	67,984	--	14,132,874
Buildings and Improvements	978,270	--	33,328	944,942
Machinery, Furniture and Equipment	746,958	93,914	68,065	772,807
Total capital assets being depreciated	<u>20,902,010</u>	<u>161,898</u>	<u>101,393</u>	<u>20,962,515</u>
Less accumulated depreciation for:				
Land Improvements	(1,367,508)	75,273	--	(1,292,235)
Infrastructure	(5,552,120)	(693,768)	--	(6,245,888)
Buildings and Improvements	(229,971)	(17,155)	(33,328)	(213,798)
Machinery, Furniture and Equipment	(704,301)	246,275	(68,065)	(389,961)
Total accumulated depreciation	<u>(7,853,900)</u>	<u>(389,375)</u>	<u>(101,393)</u>	<u>(8,141,882)</u>
Total capital assets being depreciated, net	<u>13,048,110</u>	<u>(227,477)</u>	<u>--</u>	<u>12,820,633</u>
Business-type activities capital assets, net	<u>\$ 17,573,273</u>	<u>\$ 400,853</u>	<u>\$ --</u>	<u>\$ 17,974,126</u>

Depreciation was charged to functions as follows:

General Government:	
Legislative	\$ 4,828
Municipal Court	14,461
Executive/Administration	49,302
Community Development	29,374
Financial Administration	28,070
Police	206,448
Fire Protection	89,715
Highways and Streets	170,252
Civic Center	56,873
	<u>\$ 649,323</u>
Business-Type Activities:	
Water and Sewer	\$ 344,527
Airport	44,848
	<u>\$ 389,375</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2015, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Economic Development Fund	General Fund	\$ 37,810	Sales tax receivable
Water & Sewer Fund	General Fund	1,744,777	Series 2015 bond proceeds
Sanitation Fund	General Fund	66,865	Interfund loan
Water & Sewer Fund	Economic Development Fund	5,671	Sales tax accrual
	Total	<u>\$ 1,855,123</u>	

CITY OF GILMER, TEXAS
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All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2015, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	Other Governmental Funds	\$ 103,530	Fund repairs and operations
General Fund	Water & Sewer Fund	75,757	Fund repairs related to streets
Debt Service Fund	Water & Sewer Fund	626,650	Fund debt service requirements
			Budgeted transfers for capital projects
Water & Sewer Fund	General Fund	724,202	Fund debt service requirements
Water & Sewer Fund	Debt Service Fund	155,000	Fund current operations
Sanitation Fund	General Fund	441,363	Transfer remaining cash balance of HOME Grant Fund
Other Governmental Funds	General Fund	12,008	
	Total	\$ <u>2,138,510</u>	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
<u>Obligations of the City:</u>					
General obligation bonds	\$ 125,000	\$ 1,810,000	\$ 125,000	\$ 1,810,000	\$ 104,228
Premium on issuance of debt	--	40,179	--	40,179	--
Compensated absences	92,451	10,960	--	103,411	--
Total obligations of the City	<u>217,451</u>	<u>1,861,139</u>	<u>125,000</u>	<u>1,953,590</u>	<u>104,228</u>
<u>Obligations of Economic Development Corp:</u>					
Sales tax revenue bonds	3,995,000	--	145,000	3,850,000	150,000
Discount on issuance of debt	(20,057)	--	(1,062)	(18,995)	--
Total obligations of EDC	<u>3,974,943</u>	<u>--</u>	<u>143,938</u>	<u>3,831,005</u>	<u>150,000</u>
Total governmental activities	\$ <u>4,192,394</u>	\$ <u>1,861,139</u>	\$ <u>268,938</u>	\$ <u>5,784,595</u>	\$ <u>254,228</u>
<u>Business-type activities:</u>					
Refunding bonds	\$ 8,520,000	\$ --	\$ 205,000	\$ 8,315,000	495,000
Tax and revenue certificates of obligation	450,000	1,750,000	450,000	1,750,000	100,772
Premium on issuance of debt	262,221	38,846	18,355	282,712	--
Total business-type activities	\$ <u>9,232,221</u>	\$ <u>1,788,846</u>	\$ <u>673,355</u>	\$ <u>10,347,712</u>	\$ <u>595,772</u>

CITY OF GILMER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2015, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 254,228	\$ 232,334	\$ 486,562
2017	277,023	212,185	489,208
2018	289,649	202,324	491,973
2019	302,275	192,035	494,310
2020	322,528	180,905	503,433
2021-2025	1,783,567	740,774	2,524,341
2026-2030	1,555,730	416,859	1,972,589
2031-2033	875,000	88,750	963,750
Totals	<u>\$ 5,660,000</u>	<u>\$ 2,266,166</u>	<u>\$ 7,926,166</u>

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2016	\$ 595,772	\$ 315,324	\$ 911,096
2017	617,978	289,493	907,471
2018	630,351	275,129	905,480
2019	642,725	259,568	902,293
2020	652,472	243,637	896,109
2021-2025	3,471,432	952,266	4,423,698
2026-2030	2,299,270	439,371	2,738,641
2031-2034	1,155,000	125,164	1,280,164
Totals	<u>\$ 10,065,000</u>	<u>\$ 2,899,952</u>	<u>\$ 12,964,952</u>

The following is a list of General Obligation Bonds and Revenue Bonds payable at September 30, 2015:

Governmental Activities:

Certificates of Obligation

2015 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 2.0% to 3.0% due semi-annually through August 15, 2027. \$ 1,810,000

Sales Tax and Revenue Bonds

(an obligation of Gilmer Economic Development Corporation, a blended 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. 3,850,000

5,660,000

Total Governmental Activities \$ 5,660,000

Business-Type Activities:

Refunding Bonds

2010 Waterworks and Sewer System Refunding Bond; principal plus interest varying from 3.0% to 4.25% due semi-annually through July 1, 2034. \$ 4,200,000

2013 General Obligation Refunding Bond Series 2013; principal plus interest varying from 2.0% to 3.0% due semi-annually through May 15, 2027. 4,115,000

Total Refunding Bonds 8,315,000

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Tax and Revenue Certificates of Obligation

2015 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 2.0% to 3.0% due semi-annually through August 15, 2027.

	1,750,000
Total Certificates of Obligation	1,750,000
Total Business-Type Activities	\$ 10,065,000

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plan

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

1. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

2. Benefits Provided

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

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

Employees covered by benefit terms:

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

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Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	26
Active employees	<u>47</u>
Total covered employees	102

3. Contributions

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

Employees for the City were required to contribute 6.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.14% and 13.65% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$270,386, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension

CITY OF GILMER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 7,719,663	\$ 6,339,825	\$ 1,379,838
Changes for the year			
Service cost	251,495	--	251,495
Interest	536,347	--	536,347
Change of benefit terms	--	--	--
Difference between expected and actual experience	(159,024)	--	(159,024)
Changes of assumptions	--	--	--
Contributions - employer	--	254,283	(254,283)
Contributions - employee	--	116,111	(116,111)
Net investment income	--	362,730	(362,730)
Benefit payments, including refunds of employee contributions	(366,623)	(366,623)	--
Administrative expense	--	(3,787)	3,787
Other changes	--	(311)	311
Net changes	262,195	362,403	(100,208)
Balance at 12/31/2014	<u>\$ 7,981,858</u>	<u>\$ 6,702,228</u>	<u>\$ 1,279,630</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

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	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
City's net pension liability	\$ 2,463,697	\$ 1,279,630	\$ 322,407

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$205,523.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ --	\$ (116,294)
Changes in actuarial assumptions	--	--
Difference between projected and actual investment earnings	64,846	--
Contributions subsequent to the measurement date	196,467	--
Total	<u>\$ 261,313</u>	<u>\$ (116,294)</u>

\$196,467 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:		
2015	\$	(26,518)
2016		(26,518)
2017		(14,622)
2018		16,210
2019		--
Thereafter		--

6. 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

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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 benefits payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employee's entire careers.

The City's contribution to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$4,948, \$4,574, and \$4,128, respectively, which equaled the required contribution each year.

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)

1. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the "System") established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the system is classified in the financial statements as pension trust funds. Of the nine member Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2014, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated members entitled to benefits but not yet receiving them	2,161
Active participants (vested and nonvested)	<u>4,036</u>
Total covered members	9,270

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified 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. There is no provision for automatic postretirement benefit increases.

On and off-duty 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 or continuing monthly payments to a member's surviving spouse and dependent children.

2. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

CITY OF GILMER, TEXAS
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The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

3. 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, and there is no maximum contribution rate. For the fiscal year ended August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State appropriated \$1,530,343 for the fiscal year ended August 31, 2014. The City's proportionate share of the State's contribution is \$2,288.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection 4 below.

The actuarial valuation as of August 31, 2014 stated the TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the State. The expected contributions from the State are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014, the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

4. Net Pension Liability

The System's net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014.

Total pension liability	\$ 109,854,799
Plan fiduciary net position	<u>91,683,156</u>
System's net pension liability	\$ 18,171,643

Plan fiduciary net position as a percentage of the total pension liability 83.50%

CITY OF GILMER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Actuarial assumptions:

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Equities		
Large cap domestic	32.0%	5.20%
Small cap domestic	10.0%	5.80%
Developed international	21.0%	5.50%
Emerging markets	6.0%	5.40%
Master limited partnership	5.0%	7.10%
Fixed income		
Domestic	21.0%	1.40%
International	5.0%	1.60%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF GILMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 103,103	\$ 77,618	\$ 25,485
Changes for the year			
Service cost	1,809	--	1,809
Interest	7,971	--	7,971
Change of benefit terms	--	--	--
Difference between expected and actual experience	--	--	--
Changes of assumptions	--	--	--
Contributions - employer	--	4,135	(4,135)
Contributions - employee	--	1,515	(1,515)
Net investment income	--	11,789	(11,789)
Benefit payments, including refunds of employee contributions	(4,126)	(4,126)	--
Administrative expense	--	(164)	164
Other changes	--	--	--
Net changes	<u>5,654</u>	<u>13,149</u>	<u>(7,495)</u>
Balance at 12/31/2014	<u>\$ 108,757</u>	<u>\$ 90,767</u>	<u>\$ 17,990</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System, calculated using the discount rate of 7.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
City's proportionate share of the net pension liability	\$ 37,072	\$ 17,990	\$ 6,857
Plan net pension liability	\$ 37,446,213	\$ 18,171,643	\$ 6,926,006

Pension Plan Fiduciary Net Position

Detailed information about the System's Fiduciary Net Position is available in a separately-issued TESRS financial report. That report may be obtained on the Internet at www.tesrs.org.

5. Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the City reported a liability of \$17,990 for its proportionate share of the TESRS net pension liability.

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan relative to the contributions of all participating departments to the plan for the period September 1, 2013 through August 31, 2014.

For the year ended September 30, 2015, the City recognized pension expense of \$12,744.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF GILMER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ --	\$ (4,534)
Changes in actuarial assumptions	--	--
Difference between projected and actual investment earnings	--	--
Contributions subsequent to the measurement date	10,393	--
Total	<u>\$ 10,393</u>	<u>\$ (4,534)</u>

\$10,393 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	
2016	\$ (1,133)
2017	(1,134)
2018	(1,134)
2019	(1,133)
2020	--
Thereafter	

I. Health Care Coverage

The City of Gilmer provides health and dental insurance benefits for its employees. The City contracts with the Texas Municipal League for health insurance. The City does not retain any risk of loss for health care benefits. The total cost to the City of Gilmer for the fiscal year ended September 30, 2015 was \$325,819. The cost of health and dental insurance benefits is recognized as an expenditure as it is paid. The general fund contributed \$273,202, the water and sewer fund contributed \$46,276, and other governmental funds contributed \$6,341.

J. Commitments and Contingencies

1. 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.

2. Litigation

No reportable litigation was pending against the City at September 30, 2015.

K. Deferred Compensation

Employees of the City may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plan with Respect to Service for State and Local Governments). The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

An unrelated financial institution administers the deferred compensation plan. Under the terms of GASB Statement No. 32, an IRC Section 457 deferred compensation plan's deferred compensation and income attributable to the

CITY OF GILMER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

investment of deferred compensation amounts are held in trust, until paid or made available to the employees or beneficiaries and are the property of the employees and are not accessible by the City or its creditors.

The City does not perform the investing function or have significant administrative involvement in the handling of the plan.

L. Subsequent Events

Management has evaluated subsequent events through March 16, 2016, the date on which the financial statements were available to be issued.

M. Restricted Fund Balance

As of September 30, 2015, fund balances restricted for specific purposes were as follows:

General Fund			
	Hotel-Motel tax	\$	25,475
	Court restricted funds		20,152
	LEOSE		4,442
	Wal-Mart grant for police department		4,848
	Police Officers Fund		272
		\$	<u>55,189</u>
Other Governmental Funds			
	Police Dept. Seizure Fund	\$	8,043
	Civic Center		381
	USDA Loan Program		106,352
		\$	<u>114,776</u>

N. Prior Period Adjustment

Beginning net position has been reduced by \$1,214,781 to reflect a change in accounting policy.

The City implemented the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" during the year ended September 30, 2015. As a result, a net pension liability as of October 1, 2014 was recorded.

The prior period adjustment is reported in the accompanying Statement of Activities as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
GASB 68 Implementation	\$ (1,021,408)	\$ (193,373)
	<u>\$ (1,021,408)</u>	<u>\$ (193,373)</u>

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**CITY OF GILMER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

B-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,139,228	\$ 1,139,228	\$ 1,102,313	\$ (36,915)
Penalty and interest	18,000	18,000	14,182	(3,818)
Sales tax	900,000	900,000	1,001,979	101,979
Franchise taxes	335,177	335,177	338,410	3,233
Fines and forfeitures	182,200	182,200	259,838	77,638
Licenses and permits	23,000	23,000	24,633	1,633
Other taxes	48,000	48,000	56,214	8,214
Investment income	1,800	1,800	11,690	9,890
Rents and royalties	6,000	6,000	12,516	6,516
Intergovernmental revenues and grants	58,000	58,000	60,809	2,809
Grant revenue	7,100	31,800	29,000	(2,800)
Other revenue	10,350	50,406	67,515	17,109
TOTAL REVENUES	<u>2,728,855</u>	<u>2,793,611</u>	<u>2,979,099</u>	<u>185,488</u>
EXPENDITURES:				
Legislative	24,709	24,709	29,248	(4,539)
Municipal court	85,246	85,246	92,867	(7,621)
Executive/administration	295,742	425,206	479,442	(54,236)
Community development	169,749	169,749	181,424	(11,675)
Financial administration	158,990	158,990	170,028	(11,038)
Police	1,320,345	1,542,934	1,483,840	59,094
Fire protection	548,744	548,744	544,512	4,232
Highways and streets	268,690	901,888	364,801	537,087
Non-departmental	353,666	317,173	216,010	101,163
Debt service - interest and other charges	-	-	34,065	(34,065)
TOTAL EXPENDITURES	<u>3,225,881</u>	<u>4,174,639</u>	<u>3,596,237</u>	<u>578,402</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(497,026)	(1,381,028)	(617,138)	763,890
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	1,810,000	1,810,000
Premium on issuance of certificates of obligation	-	-	40,179	40,179
Transfers in	623,007	1,895,921	1,177,573	(718,348)
Transfers out	(135,286)	(749,198)	(179,288)	569,910
TOTAL OTHER FINANCING SOURCES (USES)	<u>487,721</u>	<u>1,146,723</u>	<u>2,848,464</u>	<u>1,701,741</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(9,305)	(234,305)	2,231,326	2,465,631
FUND BALANCE, OCTOBER 1, 2014	<u>760,166</u>	<u>760,166</u>	<u>760,166</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2015	<u>\$ 750,861</u>	<u>\$ 525,861</u>	<u>\$ 2,991,492</u>	<u>\$ 2,465,631</u>

**CITY OF GILMER, TEXAS
ECONOMIC DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

B-2

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Sales tax	\$ 450,000	\$ 450,000	\$ 500,990	\$ 50,990
Investment income	3,000	3,000	4,774	1,774
TOTAL REVENUES	<u>453,000</u>	<u>453,000</u>	<u>505,764</u>	<u>52,764</u>
EXPENDITURES:				
Non-departmental	67,500	67,500	75,148	(7,648)
Debt service - principal	145,000	145,000	145,000	-
Debt service - interest and other charges	182,450	182,450	182,450	-
TOTAL EXPENDITURES	<u>394,950</u>	<u>394,950</u>	<u>402,598</u>	<u>(7,648)</u>
EXCESS OF REVENUES OVER EXPENDITURES	58,050	58,050	103,166	45,116
FUND BALANCE, OCTOBER 1, 2014	<u>562,467</u>	<u>562,467</u>	<u>562,467</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2015	<u>\$ 620,517</u>	<u>\$ 620,517</u>	<u>\$ 665,633</u>	<u>\$ 45,116</u>

CITY OF GILMER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
City's proportion of the net pension liability	0.099%	--	--	--	--	--	--	--	--	--
City's proportionate share of the net pension liability	\$ 17,990	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability associated with the City	18,171,643	--	--	--	--	--	--	--	--	--
Total	\$ 18,189,633	\$ --								

City's covered-employee payroll	N/A	\$	\$	\$	\$	\$	\$	\$	\$	\$
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A	--	--	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	83.46%	--	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2a requires that the information on this schedule be data from the period corresponding with the period covered as of the TERSRS measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

* Note: Only one year of data is presented in accordance with GASB Statement No. 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF GILMER, TEXAS
 SCHEDULE OF CITY CONTRIBUTIONS
 TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 8,408	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	(8,408)	--	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	<u>\$ --</u>									
City's covered-employee payroll	N/A	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	N/A	--	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the City's current fiscal year as opposed to the time period covered by the measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

* Note: Only one year of data is presented in accordance with GASB Statement No. 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF GILMER, TEXAS
 SCHEDULE OF CHANGES IN THE CITY'S
 NET PENSION LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total pension liability:										
Service cost	\$ 251,495	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Interest	536,347	--	--	--	--	--	--	--	--	--
Changes of benefit terms	--	--	--	--	--	--	--	--	--	--
Differences between expected and actual experience	(159,024)	--	--	--	--	--	--	--	--	--
Changes of assumptions	--	--	--	--	--	--	--	--	--	--
Benefit payments, including refunds of employee contributions	(366,623)	--	--	--	--	--	--	--	--	--
Net change in total pension liability	262,195	--								
Total pension liability - beginning	7,719,663	--								
Total pension liability - ending (a)	\$ 7,981,858	\$ --								
Plan fiduciary net position:										
Contributions - employer	\$ 254,283	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions - employee	116,111	--	--	--	--	--	--	--	--	--
Net investment income	362,730	--	--	--	--	--	--	--	--	--
Benefit payments, including refunds of employee contributions	(366,623)	--	--	--	--	--	--	--	--	--
Administrative expense	(3,787)	--	--	--	--	--	--	--	--	--
Other	(311)	--	--	--	--	--	--	--	--	--
Net change in plan fiduciary net position	362,403	--								
Plan fiduciary net position - beginning	6,339,825	--								
Plan fiduciary net position - ending (b)	\$ 6,702,228	\$ --								
City's net pension liability - ending (a) - (b)	\$ 1,279,630	\$ --								
Plan fiduciary net position as a percentage of the total pension liability	83.97%	--								
Covered-employee payroll	\$ 1,935,190	\$ --								
City's net pension liability as a percentage of covered-employee payroll	66.12%	--								

Notes to Schedule:

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF GILMER, TEXAS
 SCHEDULE OF CITY CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 270,386	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the actuarially determined contribution	(270,386)	--	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Covered-employee payroll	\$ 2,002,551	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	13.50%	--	--	--	--	--	--	--	--	--

Notes to Schedule

Valuation date:

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

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry age normal
- Amortization method: Level percentage of payroll, closed
- Remaining amortization period: 21 years
- Asset valuation method: 10-year smoothed market; 15% soft corridor
- Inflation: 3.0%
- Salary increases: 3.5% to 12.00%, including inflation
- Investment rate of return: 7.00%
- Retirement age: Experienced-based table of rates that are specific to the City's plan and benefits
- Mortality: Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009. RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

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Compliance Section

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KAREN A. JACKS & ASSOCIATES, P.C.

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Chanice A. Johnson, CPA

Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilmer, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Gilmer, Texas' basic financial statements, and have issued our report thereon dated March 16, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gilmer, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
March 16, 2016

CITY OF GILMER
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses?

 Yes X None Reported

Noncompliance material to financial
statements noted?

 Yes X No

B. Financial Statement Findings

NONE

CITY OF GILMER

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None		

CITY OF GILMER
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

None required.

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