

CITY OF GILMER, TEXAS

FINANCIAL STATEMENTS

September 30, 2014

PRINCIPAL OFFICIALS

September 30, 2014

CITY COUNCIL

R.D. CROSS, MAYOR

WILLIAM HORNSBY, MAYOR PRO TEM

JOSE CAVAZOS

BRIAN WILLIAMS

BRENDA JEFFERY

MICHAEL CHEVALIER

TEATHEL HOLLIS

CITY MANAGER

JEFF ELLINGTON

CITY SECRETARY

KATHY HOOVER

BUSINESS MANAGER

GARY SMITH

CITY OF GILMER, TEXAS
September 30, 2014
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INDEPENDENT AUDITORS' REPORT

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, as of and for the year ended September 30, 2014, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015, on our consideration of the 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 the City of Gilmer, Texas internal control over financial reporting and compliance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, PC

Longview, Texas

March 16, 2015

City of Gilmer, Texas

Management's Discussion and Analysis

For Year Ended September 30, 2014

As management of the City of Gilmer, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2014. 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, 2014 totaled \$33,547,485 compared to its liabilities of \$13,936,937; the excess of assets over liabilities (net position) was \$19,610,548. However, with the adjustment from the loss on the defeasance of debt, total net position increased over last year's by \$511,231, or 3% compared to the net position at September 30, 2013.
- i During the year ended September 30, 2014, the City of Gilmer upgraded computer systems and software in City Hall and the Police Department; the antenna system at the radio tower for Police and Fire communications; completed two drainage projects; upgraded several sewer lines and lift stations; purchased two police vehicles; one boom mower for the street department; added a new records building and improved the access to City Hall; for a total of \$381,388. All projects were paid out of capital projects funds available in the General Fund, Water and Sewer Fund and the Sanitation Fund.
- i During the year ending September 30, 2014, the City of Gilmer received a HOME grant that allowed the replacement of four uninhabitable homes with four new homes, for city residents. Total grant was for \$354,000 from Texas Department of Housing and Community Affairs.
- i Total General Fund revenues were \$2,767,742 with expenditures of \$3,221,475. There were also net transfers into the General Fund from Proprietary funds of \$581,006, which resulted in an increase of fund balance of \$127,273. At September 30, 2014 the General Fund had a fund balance of \$760,166.

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 \$19,610,548, as of September 30, 2014, an increase of \$511,231 over the previous year.

The largest portion of the City's net position, 80%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), net of 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	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$1,713,083	\$1,802,281	\$2,706,754	\$2,773,862	\$4,419,837	\$4,576,143
Capital assets	11,123,990	10,827,097	17,836,767	17,573,273	28,960,757	28,400,370
Total Assets	12,837,073	12,629,378	20,543,521	20,347,135	33,380,594	32,976,513
Loss on defeasance of debt	--	--	587,959	550,915	587,959	550,915
Current liabilities	565,223	554,411	1,214,013	955,305	1,779,236	1,509,716
Noncurrent liabilities, due in more than one year	4,120,000	3,829,943	8,970,000	8,577,221	13,090,000	12,407,164
Total Liabilities	4,685,223	4,384,354	10,184,013	9,532,526	14,869,236	13,916,880
Net Position:						
Net investment in capital assets	6,765,110	6,727,154	7,961,192	8,891,967	14,726,302	15,619,121
Restricted	701,565	700,632	107,149	107,964	808,714	808,596
Unrestricted	685,175	817,238	2,879,126	2,365,593	3,564,301	3,182,831
Total Net Position	8,151,850	8,245,024	10,947,467	11,365,524	19,099,317	19,610,548

Analysis of the City's Operations- Overall the City had an increase in net position of \$511,231. Governmental activities increased the net position by \$93,174 and net position from business-type activities increased by \$418,057.

The following table provides a summary of the City's operations for the year ended September 30, 2013 and 2014.

CITY OF GILMER'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
REVENUES:						
PROGRAM REVENUES:						
Charges for services	\$356,838	\$292,131	\$3,038,290	\$2,837,372	\$3,395,128	\$3,129,503
Operating grants & contributions	5,000	12,486	12,620	6,146	17,620	18,632
Capital grants & contributions	--	353,777	--	--	--	353,777
GENERAL REVENUES:						
Property taxes, levied for general purposes	1,053,438	1,118,731	--	--	1,053,438	1,118,731
Property taxes, levied for debt services	599,463	577,406	--	--	599,463	577,406
Sales taxes	938,744	914,910	--	--	938,744	914,910
Sales tax for Economic Development	469,372	457,455	--	--	469,372	457,455
Franchise taxes	231,683	340,188	--	--	231,683	340,188
Other taxes	49,427	54,966	--	--	49,427	54,966
Penalty and interest	19,160	14,394	--	--	19,160	14,394
Miscellaneous revenue	62,004	46,771	--	--	62,004	46,771
Investment earnings	6,995	8,978	13,285	12,161	20,280	21,139
Sale of equipment	0	0	-129,566	--	-129,566	0
Transfers in (out)	-56,808	146,779	56,808	-146,779	0	0
TOTAL REVENUES	3,735,316	4,338,972	2,991,437	2,708,900	6,726,753	7,047,872
EXPENSES:						
Legislative	29,319	33,858	--	--	29,319	33,858
Municipal court	84,941	92,623	--	--	84,941	92,623
Executive/administration	301,865	384,809	--	--	301,865	384,809
Community development	158,730	522,829	--	--	158,730	522,829
Financial administration	174,736	209,613	--	--	174,736	209,613
Police	1,311,700	1,473,490	--	--	1,311,700	1,473,490
Fire protection	561,236	548,983	--	--	561,236	548,983
Highways and Streets	343,217	349,254	--	--	343,217	349,254
Civic center	161,387	174,461	--	--	161,387	174,461
Non departmental	248,873	256,151	--	--	248,873	256,151
Interest & fiscal agent fees	205,170	199,727	--	--	205,170	199,727
Water & sewer	--	--	1,567,952	1,591,831	1,567,952	1,591,831
Sanitation	--	--	641,935	632,674	641,935	632,674
Airport	--	--	73,633	66,338	73,633	66,338
TOTAL EXPENSES	3,581,174	4,245,798	2,283,520	2,290,843	5,864,694	6,536,641
CHANGES IN NET POSITION	154,142	93,174	707,917	418,057	862,059	511,231
NET POSITION – BEGINNING	8,179,226	8,151,850	10,400,606	10,947,467	18,579,832	19,099,317
PRIOR PERIOD ADJUSTMENT	-181,518	--	-161,056	--	-342,574	--
NET POSITION - ENDING	\$8,151,850	\$8,245,024	\$10,947,467	\$11,365,524	\$19,099,317	\$19,610,548

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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Gilmer's governmental funds reported combined ending fund balances of \$1,463,207 which is an increase of \$124,773 from last fiscal year's balance of \$1,338,434. Of the current balance, \$648,288 constitutes unassigned fund balance. The remainder of the fund balance is either restricted by statute or by its providers, such as bondholders (\$750,299) or has been assigned by the City to express intent for a narrower purpose than general government operations (\$64,620) 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 position of the respective proprietary funds are Water and Sewer- \$1,805,423; Sanitation- \$507,635; and Airport- \$52,535.

General Fund Budgetary Highlights- The City made several revisions to the original budget during the year. At year-end, total revenues were over the budgeted amount by \$9,966 while total expenditures were under budget by \$203,307.

CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2014 amounts to \$28,400,370 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery & equipment and construction in progress. Part of the decrease of valuation in infrastructure was from the disposal of outdated equipment and additional depreciation.

Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Land	\$6,330,697	\$6,330,697	\$4,525,164	\$4,525,164	\$10,855,861	\$10,855,861
Infrastructure	1,501,748	1,206,593	8,587,392	8,512,770	10,089,140	9,719,363
Buildings	2,435,483	2,394,630	767,658	748,299	3,203,141	3,142,929
Improvements, other than bldgs	--	--	3,817,142	3,744,384	3,817,142	3,744,384
Machinery & Equip	856,062	895,176	139,411	42,657	995,473	937,833
Total	\$11,123,990	\$10,827,096	\$17,836,767	\$17,573,274	\$28,960,757	\$28,400,370

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$13,090,000. Of this amount, \$125,000 comprises bonded debt backed by the full faith and credit of the government, while \$8,520,000 represents bonds secured solely by water and sewer revenues and \$450,000 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 \$3,995,000 does not constitute an obligation of the City of Gilmer, but is reported herein as an obligation of its blended component unit, Gilmer Economic Development Corporation. Without this amount reported, the City of Gilmer's direct outstanding debt decreased from \$9,840,000 to \$9,095,000, a decrease of \$745,000, or approx. 8%.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
General Obligation Bonds	\$245,000	\$125,000	\$ --	\$ --	\$245,000	\$125,000
Revenue Bonds Payable	--	--	8,720,000	8,520,000	8,720,000	8,520,000
Tax & Revenue CO	--	--	875,000	450,000	875,000	450,000
Premium (discount) on issuance of debt	--	--	280,576	262,221	280,576	262,221
Sub-total	\$245,000	\$125,000	\$9,875,576	\$9,232,221	\$10,120,576	\$9,357,221
Sales & Tax Revenue Bonds ****	4,135,000	3,995,000	--	--	\$4,135,000	\$3,995,000
Premium (discount) on issuance of debt	(21,120)	(20,057)	--	--	(21,120)	(20,057)
Total	\$223,880	\$125,000	\$13,989,456	\$13,207,164	\$14,234,456	\$13,332,164

**** Sales & Tax Revenue Bonds do not constitute a direct obligation of the City of Gilmer, but are reported herein because they are an obligation of its blended component unit, Gilmer Economic Development Corporation. The EDC's share of sales tax revenues are pledged to retirement of this debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2014-2015 budget and rates. Sales tax receipts had shown an increase in fiscal year 2013-2014, and the City had just allowed beer and wine sales within the city limits. However, with the unknown effect of the sale of alcoholic beverages, sales tax was budgeted conservatively for the fiscal year 2014-2015. The property tax rate for 2014-2015 is set at .625178/\$100. Property values increased 3.5% for the 2014-2015 budget year over 2013-2014. The City has made a concerted effort to make appropriations for those items truly necessary.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**CITY OF GILMER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 973,031	\$ 1,293,265	\$ 2,266,296
Investments	552,391	887,441	1,439,832
Receivables (net of allowance for uncollectibles):			
Taxes	267,954	-	267,954
Accounts	-	409,586	409,586
Notes	30,815	-	30,815
Other	156,191	-	156,191
Prepaid expenses	-	5,469	5,469
Internal balances	(178,101)	178,101	-
Capital assets (net of accumulated depreciation):			
Land	6,330,697	4,525,163	10,855,860
Improvements	1,206,593	12,257,154	13,463,747
Buildings and improvements	2,394,629	748,299	3,142,928
Furniture and equipment	895,178	42,657	937,835
Total assets	<u>12,629,378</u>	<u>20,347,135</u>	<u>32,976,513</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on defeasance of debt	-	550,915	550,915
Total deferred outflows	<u>-</u>	<u>550,915</u>	<u>550,915</u>
LIABILITIES			
Accounts payable	64,523	82,219	146,742
Accrued wages	70,153	15,510	85,663
Accrual for compensated absences	95,568	22,092	117,660
Accrued interest payable	49,667	74,619	124,286
Unearned revenue	4,500	-	4,500
Customer deposits	-	105,865	105,865
Noncurrent liabilities:			
Due within one year	270,000	655,000	925,000
Due in more than one year	3,829,943	8,577,221	12,407,164
Total liabilities	<u>4,384,354</u>	<u>9,532,526</u>	<u>13,916,880</u>
NET POSITION			
Net investment in capital assets	6,727,154	8,891,967	15,619,121
Restricted for debt service	532,791	107,964	640,755
Restricted for other purposes	167,841	-	167,841
Unrestricted	817,238	2,365,593	3,182,831
Total net position	<u>\$ 8,245,024</u>	<u>\$ 11,365,524</u>	<u>\$ 19,610,548</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, 2014**

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	\$ 33,858	\$ -	\$ -	\$ -	\$ (33,858)		\$ (33,858)
Municipal court	92,623	-	-	-	(92,623)		(92,623)
Executive/administration	384,809	-	-	-	(384,809)		(384,809)
Community development	522,829	-	-	353,777	(169,052)		(169,052)
Financial administration	209,613	37,441	-	-	(172,172)		(172,172)
Police	1,473,490	152,307	12,486	-	(1,308,697)		(1,308,697)
Fire protection	548,983	59,684	-	-	(489,299)		(489,299)
Highways and streets	349,254	-	-	-	(349,254)		(349,254)
Civic center	174,461	42,699	-	-	(131,762)		(131,762)
Non-departmental	256,151	-	-	-	(256,151)		(256,151)
Interest and fiscal agent fees	199,727	-	-	-	(199,727)		(199,727)
Total governmental activities	<u>4,245,798</u>	<u>292,131</u>	<u>12,486</u>	<u>353,777</u>	<u>(3,587,404)</u>		<u>(3,587,404)</u>
Business-type activities:							
Water and sewer	1,591,831	2,027,628	-	-	\$ 435,797		435,797
Sanitation	632,674	741,784	-	-	109,110		109,110
Airport	66,338	67,960	6,146	-	7,768		7,768
Total business-type activities	<u>2,290,843</u>	<u>2,837,372</u>	<u>6,146</u>	<u>-</u>	<u>552,675</u>		<u>552,675</u>
Total primary government	\$ 6,536,641	\$ 3,129,503	\$ 18,632	\$ 353,777	\$ (3,587,404)	\$ 552,675	\$ (3,034,729)
General revenues							
Property taxes, levied for general purposes					1,118,731	-	1,118,731
Property taxes, levied for debt service					577,406	-	577,406
Sales taxes					914,910	-	914,910
Sales taxes for Economic Development					457,455	-	457,455
Franchise taxes					340,188	-	340,188
Other taxes					54,966	-	54,966
Penalty and interest					14,394	-	14,394
Investment earnings					8,978	12,161	21,139
Miscellaneous					46,771	-	46,771
Transfers in (out)					146,779	(146,779)	-
Total general revenues and transfers					<u>3,680,578</u>	<u>(134,618)</u>	<u>3,545,960</u>
Change in net position					93,174	418,057	511,231
Net position - beginning					8,151,850	10,947,467	19,099,317
Net assets - ending					<u>\$ 8,245,024</u>	<u>\$ 11,365,524</u>	<u>\$ 19,610,548</u>

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

**CITY OF GILMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 649,589	\$ 19,991	\$ 204,569	\$ 98,882	\$ 973,031
Investments	202,139	-	350,252	-	552,391
Receivables:					
Taxes	267,953	-	-	-	267,953
Due from other funds	-	-	38,882	-	38,882
Notes receivable	-	-	-	30,815	30,815
Other receivable	25,717	-	-	84,999	110,716
	<u>\$ 1,145,398</u>	<u>\$ 19,991</u>	<u>\$ 593,703</u>	<u>\$ 214,696</u>	<u>\$ 1,973,788</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ 52,291	\$ -	\$ -	\$ 12,232	\$ 64,523
Due to other funds	105,747	-	31,236	80,000	216,983
Unearned revenue	4,500	-	-	-	4,500
Accrued wages	68,559	-	-	1,593	70,152
Accrual for compensated absences	2,829	-	-	288	3,117
	<u>233,926</u>	<u>-</u>	<u>31,236</u>	<u>94,113</u>	<u>359,275</u>
DEFERRED INFLOWS OF RESOURCES:					
Deferred property tax revenue	151,306	-	-	-	151,306
	<u>151,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151,306</u>
FUND BALANCE:					
Restricted for debt service	-	19,991	562,467	-	582,458
Restricted for other purposes	47,258	-	-	120,583	167,841
Assigned	64,620	-	-	-	64,620
Unassigned	648,288	-	-	-	648,288
	<u>760,166</u>	<u>19,991</u>	<u>562,467</u>	<u>120,583</u>	<u>1,463,207</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,145,398	\$ 19,991	\$ 593,703	\$ 214,696	\$ 1,973,788

(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, 2014**

Total fund balances - governmental funds balance sheet	\$ 1,463,207
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	10,827,097
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	151,306
Liabilities for bond principal which are not due in the current period are not reported in the funds.	(4,120,000)
Unamortized discounts on issuance of bonds are not reported in the funds.	20,057
Liabilities for accrued interest which are not due in the current period are not reported in the funds.	(49,667)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(92,451)
Court fines receivable unavailable to pay for current period expenditures are not reported in the funds.	<u>45,475</u>
Net assets of governmental activities - statement of net position	<u><u>\$ 8,245,024</u></u>

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

CITY OF GILMER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,105,769	\$ 577,406	\$ -	\$ -	\$ 1,683,175
Penalty and interest	14,394	-	-	-	14,394
Sales tax	914,910	-	457,455	-	1,372,365
Franchise taxes	340,188	-	-	-	340,188
Other taxes	54,966	-	-	-	54,966
Fines and forfeitures	166,252	-	-	2,079	168,331
Licenses and permits	37,441	-	-	-	37,441
Intergovernmental revenue and grants	59,684	-	-	-	59,684
Investment income	3,135	381	4,091	1,370	8,977
Rents and royalties	12,305	-	-	30,394	42,699
Grants revenue	12,487	-	-	353,777	366,264
Donations	-	-	-	1,000	1,000
Other revenue	46,211	-	-	3,426	49,637
TOTAL REVENUES	2,767,742	577,787	461,546	392,046	4,199,121
EXPENDITURES:					
Legislative	28,600	-	-	-	28,600
Municipal court	79,690	-	-	-	79,690
Executive/administration	339,967	-	-	-	339,967
Community development	142,692	-	-	351,699	494,391
Financial administration	177,622	-	-	-	177,622
Police	1,314,792	-	-	1,653	1,316,445
Fire protection	530,265	-	-	-	530,265
Highways and streets	420,315	-	-	-	420,315
Civic center	-	-	-	118,228	118,228
Non-departmental	187,532	-	68,618	-	256,150
Debt service -principal	-	120,000	140,000	-	260,000
-interest	-	13,499	185,955	-	199,454
TOTAL EXPENDITURES	3,221,475	133,499	394,573	471,580	4,221,127
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(453,733)	444,288	66,973	(79,534)	(22,006)
OTHER FINANCING SOURCES (USES):					
Transfers in	671,054	-	-	90,048	761,102
Transfers out	(90,048)	(524,275)	-	-	(614,323)
TOTAL OTHER FINANCING SOURCES (USES)	581,006	(524,275)	-	90,048	146,779
NET CHANGE IN FUND BALANCES	127,273	(79,987)	66,973	10,514	124,773
FUND BALANCE, OCTOBER 1, 2013	632,893	99,978	495,494	110,069	1,338,434
FUND BALANCE, SEPTEMBER 30, 2014	\$ 760,166	\$ 19,991	\$ 562,467	\$ 120,583	\$ 1,463,207

(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, 2014**

Net change in fund balances - total governmental funds	\$ 124,773
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	284,220
Loss on asset disposition is not reported in the funds.	(3,869)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(577,246)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	12,963
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	260,000
Bond discounts are amortized in the SOA but not in the funds.	(1,063)
(Increase) decrease in accrued interest from beginning of period to end of period.	790
Increase (decrease) in court fines receivable.	(16,023)
(Increase) decrease in accrual for compensated absences.	<u>8,629</u>
Change in net position of governmental activities - statement of activities	<u><u>\$ 93,174</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, 2014

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 826,651	\$ 312,176	\$ 49,112	\$ 1,187,939
Investments	887,441	-	-	887,441
Accounts receivable, net	301,347	107,985	254	409,586
Due from other funds	31,236	146,865	-	178,101
Prepaid expenses	-	-	5,469	5,469
Total current assets	<u>2,046,675</u>	<u>567,026</u>	<u>54,835</u>	<u>2,668,536</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	105,326	-	-	105,326
Capital assets:				
Land	4,266,666	230,484	28,013	4,525,163
Land improvements	3,558,648	-	1,553,244	5,111,892
Infrastructure	14,064,890	-	-	14,064,890
Buildings	162,453	-	815,817	978,270
Equipment and furniture	643,893	-	103,065	746,958
Less accumulated depreciation	(7,340,105)	-	(513,795)	(7,853,900)
Total noncurrent assets	<u>15,461,771</u>	<u>230,484</u>	<u>1,986,344</u>	<u>17,678,599</u>
TOTAL ASSETS	<u>17,508,446</u>	<u>797,510</u>	<u>2,041,179</u>	<u>20,347,135</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Loss on defeasance of debt	550,915	-	-	550,915
TOTAL DEFERRED OUTFLOWS	<u>550,915</u>	<u>-</u>	<u>-</u>	<u>550,915</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	22,094	58,075	2,050	82,219
Wages payable	14,530	980	-	15,510
Accrual for compensated absences	21,756	336	-	22,092
Accrued interest payable	74,619	-	-	74,619
Customer deposits	105,615	-	250	105,865
Bonds, notes, and loans payable	655,000	-	-	655,000
Total current liabilities	<u>893,614</u>	<u>59,391</u>	<u>2,300</u>	<u>955,305</u>
Noncurrent liabilities:				
Bonds, notes, and loans payable	8,577,221	-	-	8,577,221
Total noncurrent liabilities	<u>8,577,221</u>	<u>-</u>	<u>-</u>	<u>8,577,221</u>
TOTAL LIABILITIES	<u>9,470,835</u>	<u>59,391</u>	<u>2,300</u>	<u>9,532,526</u>
NET POSITION:				
Net investment in capital assets	6,675,139	230,484	1,986,344	8,891,967
Restricted for debt service	107,964	-	-	107,964
Unrestricted	1,805,423	507,635	52,535	2,365,593
TOTAL NET POSITION	<u>\$ 8,588,526</u>	<u>\$ 738,119</u>	<u>\$ 2,038,879</u>	<u>\$ 11,365,524</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, 2014

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
OPERATING REVENUES:				
Charges for water services	\$ 1,183,238	\$ -	\$ -	\$ 1,183,238
Charges for sewerage services	709,310	-	-	709,310
Charges for sanitation services	-	722,408	-	722,408
Penalties	29,862	-	-	29,862
Rents and royalties	6,300	-	67,935	74,235
Licenses and permits	-	2,351	-	2,351
Other revenue	98,918	17,025	25	115,968
TOTAL OPERATING REVENUES	2,027,628	741,784	67,960	2,837,372
OPERATING EXPENSES:				
Salaries and employee benefits	465,341	16,027	-	481,368
Contractual services	40,942	616,647	3,962	661,551
Utilities	137,889	-	9,241	147,130
Repairs and maintenance	131,930	-	8,099	140,029
Supplies and other expenses	120,410	-	2,296	122,706
Insurance	24,586	-	2,655	27,241
Depreciation	339,065	-	40,085	379,150
TOTAL OPERATING EXPENSES	1,260,163	632,674	66,338	1,959,175
OPERATING INCOME	767,465	109,110	1,622	878,197
NONOPERATING REVENUES (EXPENSES):				
Interest and investment revenue	11,024	1,049	88	12,161
Operating grants	-	-	6,146	6,146
Interest expense	(331,167)	-	-	(331,167)
Debt issuance costs and fees	(500)	-	-	(500)
TOTAL NONOPERATING REVENUES (EXPENSES)	(320,643)	1,049	6,234	(313,360)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	446,822	110,159	7,856	564,837
Transfers in	524,275	-	-	524,275
Transfers out	(351,532)	(319,522)	-	(671,054)
INCOME AFTER CONTRIBUTIONS AND TRANSFERS	619,565	(209,363)	7,856	418,058
CHANGE IN NET POSITION	619,565	(209,363)	7,856	418,058
NET POSITION - BEGINNING	7,968,961	947,482	2,031,023	10,947,466
NET POSITION - ENDING	\$ 8,588,526	\$ 738,119	\$ 2,038,879	\$ 11,365,524

(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, 2014**

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from user charges	\$ 1,936,940	\$ 717,947	\$ 75,848	\$ 2,730,735
Other operating revenue	105,218	17,025	25	122,268
Cash payments to employees for services	(470,551)	(16,165)	-	(486,716)
Cash payments for contracted services	(40,942)	(607,631)	(3,962)	(652,535)
Cash payments to suppliers	(129,802)	-	(1,052)	(130,854)
Cash payments for other operating expenses	(294,405)	-	(25,464)	(319,869)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,106,458	111,176	45,395	1,263,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers to other funds	(351,532)	(319,522)	-	(671,054)
Transfers from other funds	524,275	-	-	524,275
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	172,743	(319,522)	-	(146,779)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(115,658)	-	-	(115,658)
Payments on bonds payable	(625,000)	-	-	(625,000)
Interest paid on bonds payable	(320,187)	-	-	(320,187)
Debt issuance costs paid	(500)	-	-	(500)
Capital contributions and grants	-	-	6,146	6,146
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,061,345)	-	6,146	(1,055,199)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	11,024	1,049	88	12,161
Net redemption of certificate of deposit	6,427	-	-	6,427
Interfund loans collected (funded)	(33,507)	25	(23,067)	(56,549)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(16,056)	1,074	(22,979)	(37,961)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	201,800	(207,272)	28,562	23,090
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2013	624,851	519,448	20,550	1,164,849
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2014	\$ 826,651	\$ 312,176	\$ 49,112	\$ 1,187,939
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 767,465	\$ 109,110	\$ 1,622	\$ 878,197
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	339,065	-	40,085	379,150
(Increase) decrease in accounts receivable	14,530	(6,812)	7,913	15,631
(Increase) decrease in prepaid expenses	-	-	(5,469)	(5,469)
Increase (decrease) in accounts payable	(9,392)	9,016	1,244	868
Increase (decrease) in accrued wages	(682)	428	-	(254)
Increase (decrease) in accrual for compensated absences	(4,528)	(566)	-	(5,094)
Total adjustments	338,993	2,066	43,773	384,832
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,106,458	\$ 111,176	\$ 45,395	\$ 1,263,029

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

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

COMPONENT UNIT

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

BLENDED COMPONENT 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 Gilmer. It is included in the financial statements as a special revenue fund (Economic Development Fund). There are no separate financial statements issued. All sales tax revenues produced by the EDC are pledged to debt service on Sales Tax Revenue Bonds.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

Governmental Funds:

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. All revenues not meeting this definition are reported as nonoperating revenues and expenses.

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

E. INTERFUND RECEIVABLES AND PAYABLES

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

F. ESTIMATES

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

G. CASH EQUIVALENTS

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

H. RESTRICTED ASSETS

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

I. CAPITAL ASSETS

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

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

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

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. COMPENSATED ABSENCES

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay for it. Accumulated vacation leave of proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to employees. In accordance with the provisions of *Governmental Accounting Standards Board Statement No. 16* "Accounting for Compensated Absences", no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K. FUND BALANCES - GOVERNMENTAL FUNDS

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

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

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

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

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

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

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, 2014, the City had achieved approximately 2.4 months of operating expenditures in its unassigned fund balance.

L. INTERFUND TRANSACTIONS

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

M. RISK FINANCING

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

N. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for 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 only has one item that qualifies for reporting in this category, which is the unamortized loss on defeasance of debt reported in the Water and Sewer Fund.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City only has one item which occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, deferred property taxes are reported in the governmental funds balance sheet as deferred inflows. The City did not have deferred inflows of resources to report in its government-wide or proprietary fund financial statements for the current year.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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 applied.

P. 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 amount 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 the components 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.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None	N/A

Deficit Fund Balance or Fund Net Assets of Individual Funds

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None	N/A	N/A

NOTE 3 - PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value. The assessed value for the roll as of January 1, 2013 upon which the 2014 fiscal-year levy was based, was \$276,208,169 and the tax levy was set at \$.635424 per \$100 of assessed valuation.

Taxes were due in January following the October 1 statement date. Tax collections during the fiscal year ended September 30, 2014, for the fiscal 2014 tax levy were 93.83 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2014, were \$296,054.

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, 2014 is \$144,748.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2014 was as follows:

<u>Governmental activities:</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Land	\$ 6,330,697	\$ -	\$ -	\$ 6,330,697
Infrastructure	3,925,798	52,822	-	3,978,620
Buildings and Improvements	3,838,714	42,203	-	3,880,917
Machinery, Furniture and Equipment	2,249,286	189,195	(63,524)	2,374,957
Totals at Historic Cost	<u>16,344,495</u>	<u>284,220</u>	<u>(63,524)</u>	<u>16,565,191</u>

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Infrastructure	(2,424,050)	(347,977)	-	(2,772,027)
Buildings and Improvements	(1,403,230)	(83,057)	-	(1,486,287)
Machinery, Furniture and Equipment	(1,393,224)	(146,212)	59,655	(1,479,781)
Total accumulated depreciation	<u>(5,220,504)</u>	<u>(577,246)</u>	<u>59,655</u>	<u>(5,738,095)</u>
Governmental activities capital assets, net	<u>\$ 11,123,991</u>	<u>\$ (293,026)</u>	<u>\$ (3,869)</u>	<u>\$ 10,827,096</u>
<u>Business-type activities:</u>				
Land	\$ 4,525,163	\$ -	\$ -	\$ 4,525,163
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>4,525,163</u>	<u>-</u>	<u>-</u>	<u>4,525,163</u>
Land Improvements	5,111,892	-	-	5,111,892
Infrastructure	14,002,202	100,719	(38,031)	14,064,890
Buildings and Improvements	978,270	-	-	978,270
Machinery, Furniture and Equipment	732,019	14,939	-	746,958
Total capital assets being depreciated	<u>20,824,383</u>	<u>115,658</u>	<u>(38,031)</u>	<u>20,902,010</u>
Less accumulated depreciation for:				
Land Improvements	(1,294,750)	(72,758)	-	(1,367,508)
Infrastructure	(5,414,811)	(168,640)	31,331	(5,552,120)
Buildings and Improvements	(210,612)	(19,359)	-	(229,971)
Machinery, Furniture and Equipment	(592,608)	(118,393)	6,700	(704,301)
Total accumulated depreciation	<u>(7,512,781)</u>	<u>(379,150)</u>	<u>38,031</u>	<u>(7,853,900)</u>
Total capital assets being depreciated, net	<u>13,311,602</u>	<u>(263,492)</u>	<u>-</u>	<u>13,048,110</u>
Business-type activities capital assets, net	<u>\$ 17,836,765</u>	<u>\$ (263,492)</u>	<u>\$ -</u>	<u>\$ 17,573,273</u>

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

Governmental activities:	
Legislative	\$ 5,258
Municipal Court	13,275
Executive/Administration	51,717
Community Development	26,233
Financial Administration	31,320
Police	225,753
Fire Protection	33,092
Highways and Streets	134,364
Civic Center	56,234
Total depreciation expense - governmental activities	<u>577,246</u>
Business-type activities:	
Water and sewer	339,065
Airport	40,085
Total depreciation expense - business-type activities	<u>379,150</u>

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2014, are summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Obligations of the City of Gilmer:					
General obligation bonds	\$ 245,000	\$ -	\$ 120,000	\$ 125,000	\$ 125,000
Accrual for compensated absences	101,080	-	8,629	92,451	-
Total Obligations of the City of Gilmer	346,080	-	128,629	217,451	125,000
Obligations of Economic Development Corp:					
Sales tax revenue bonds	4,135,000	-	140,000	3,995,000	145,000
Discount on issuance of debt	(21,120)	-	(1,063)	(20,057)	-
Total Governmental Activities	<u>\$ 4,459,960</u>	<u>\$ -</u>	<u>\$ 267,566</u>	<u>\$ 4,192,394</u>	<u>\$ 270,000</u>
Business-type Activities:					
Refunding bonds	\$ 8,720,000	\$ -	\$ 200,000	\$ 8,520,000	\$ 205,000
Tax and revenue certificates of obligation	875,000	-	425,000	450,000	450,000
Premium on issuance of debt	280,576	-	18,355	262,221	-
Total Business-Type Activities	<u>\$ 9,875,576</u>	<u>\$ -</u>	<u>\$ 643,355</u>	<u>\$ 9,232,221</u>	<u>\$ 655,000</u>
Total Long-term Debt	<u>\$ 14,335,536</u>	<u>\$ -</u>	<u>\$ 910,921</u>	<u>\$ 13,424,615</u>	<u>\$ 925,000</u>

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

	Balance as of September 30, 2014
Governmental Activities:	
<u>General Obligation Bonds</u>	
1999 General Obligation Bonds; principal plus interest varying from 3.35% to 4.40% due semi-annually through May 15, 2015	\$ 125,000
Total General Obligation Bonds	<u>125,000</u>
<u>Sales Tax and Revenue Bonds</u> (an obligation of Gilmer Economic Development Corporation, a component unit of the City of Gilmer)	
2011 Sales Tax and Revenue Bonds; principal plus interest varying from 4.0% to 5.0% due semi-annually through July 15, 2033.	3,995,000
Total Sales Tax and Revenue Bonds	<u>3,995,000</u>
Total Governmental Activities	<u>\$ 4,120,000</u>
Business-Type Activities:	
<u>Refunding Bonds</u>	
2010 Waterworks and Sewer System Refunding Bond; principal plus interest varying from 3.0% to 4.25% due semi-annually through July 1, 2034.	\$ 4,355,000
2013 General Obligation Refunding Bond Series 2013; principal plus interest varying from 2% to 3% due semi-annually through May 15, 2027.	4,165,000
Total Refunding Bonds	<u>8,520,000</u>
<u>Tax and Revenue Certificates of Obligation</u>	
2000 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 5.0% to 6.875% due semi-annually through July 1, 2015.	260,000
2001 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 4.5% to 6.5% due semi-annually through May 15, 2027.	190,000
Total Certificates of Obligation	<u>450,000</u>
Total Business-Type Activities	<u>\$ 8,970,000</u>

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt subsequent to September 30, 2014 are as follows:

Governmental activities:	Year Ending	Principal	Interest	Total
	September 30			
	2015	\$ 270,000	\$ 187,325	\$ 457,325
	2016	150,000	178,075	328,075
	2017	155,000	173,575	328,575
	2018	160,000	167,375	327,375
	2019	165,000	160,975	325,975
	2020-2024	925,000	693,689	1,618,689
	2025-2029	1,155,000	462,125	1,617,125
	2030-2033	1,140,000	145,750	1,285,750
		<u>\$ 4,120,000</u>	<u>\$ 2,168,889</u>	<u>\$ 6,288,889</u>

Business-type activities:	Year Ending	Principal	Interest	Total
	September 30			
	2015	\$ 655,000	\$ 292,313	\$ 947,313
	2016	495,000	262,863	757,863
	2017	500,000	252,163	752,163
	2018	505,000	241,338	746,338
	2019	510,000	229,538	739,538
	2020-2024	2,610,000	945,890	3,555,890
	2025-2029	2,280,000	508,340	2,788,340
	2030-2034	1,415,000	184,652	1,599,652
		<u>\$ 8,970,000</u>	<u>\$ 2,917,097</u>	<u>\$ 11,887,097</u>

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

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2014 were as follows:

Due From	Due To			Totals
	Economic Development	Sanitation Fund	Water & Sewer	
General Fund	\$ 38,882	\$ 66,865	\$ -	\$ 105,747
Economic Development	-	-	31,236	31,236
Other Governmental Funds	-	80,000	-	80,000
	<u>\$ 38,882</u>	<u>\$ 146,865</u>	<u>\$ 31,236</u>	<u>\$ 216,983</u>

Interfund loans consist of current and prior year borrowings between funds to satisfy cash flow requirements. The amount due to the Economic Development Fund from the General Fund represents the Economic Development Fund's share of sales tax revenues not yet transferred. The amount due to the Water & Sewer Fund from the Economic Development Fund is a portion of the annual administrative fee not yet transferred.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 6 - INTERFUND BALANCES AND TRANSFERS (CONTINUED)

Interfund transfers for the year ended September 30, 2014 were as follows:

Transfer From	Transfer To			Totals	
	General Fund	Other Governmental	Water & Sewer		
General Fund	\$ -	\$ 90,048	\$ -	\$ 90,048	To fund current operations
Debt Service Fund	-	-	524,275	524,275	To fund debt service requirements
Water & Sewer Fund	351,532	-	-	351,532	To fund current operations
Sanitation	319,522	-	-	319,522	To fund current operations
	<u>\$ 671,054</u>	<u>\$ 90,048</u>	<u>\$ 524,275</u>	<u>\$ 1,285,377</u>	

NOTE 7 - EMPLOYEE BENEFITS

TEXAS MUNICIPAL RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

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

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

	Plan Year 2013	Plan Year 2014
Employee Deposit Rate:	6%	6%
Matching Ratio (city to employee):	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

B. CONTRIBUTIONS

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2012	245,064	245,064	100%	-
2013	251,113	251,113	100%	-
2014	253,059	253,059	100%	-

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows.

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.1 years; closed period	25.1 years; closed period	26.0 years; closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress -

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2013	\$ 5,985,009	\$ 7,719,663	77.5%	\$ 1,734,654	\$ 1,847,778	93.9%

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

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

C. SUPPLEMENTAL DEATH BENEFITS FUND

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

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

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

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

The city's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$4,574, \$4,128, and \$4,080, respectively, which equaled the required contributions each year.

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2013, there were 216 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2013, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,542
Terminated participants entitled to benefits but not yet receiving them	2,181
Active participants (vested and nonvested)	4,119
	8,842

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

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

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

B. FUNDING POLICY

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

C. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ended August 31, 2013, total contributions (dues and prior service) of \$4,670,714 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2013.

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 made include level dollar, open amortization method, and a 30 year amortization period. Relating to the Actuarial Value of Assets - all assets are valued at market value as determined by the System Board of Trustees, with an adjustment made to uniformly spread the recognition of actuarial gains or losses (as measured by actual market value investment return vs. assumed market value investment return) over a five-year period. The total adjustment amount shall be limited as necessary such that the actuarial value of assets shall not be less than 80% of market value nor greater than 120% of market value.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

The actuarial valuation as of August 31, 2012 stated that TESRS has an inadequate 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 \$530,000 each year to pay for part of the System's administrative expenses. On August 31, 2012, the actuarial liabilities exceeded the actuarial assets by \$33,868,555.

NOTE 8 - RESTRICTED FUND BALANCE

As of September 30, 2014, fund balances restricted for specific purposes were as follows:

General Fund		
	Hotel-Motel tax	\$ 21,902
	Court restricted funds	13,559
	LEOSE	4,732
	Wal-Mart grant for police department	2,517
	Archeological grant	4,548
		<u>\$ 47,258</u>
Other Governmental Funds		
	Police Dept Seizure Fund	\$ 8,884
	Police Officer Fund	758
	HOME Texas Fund	11,533
	Civic Center	381
	USDA Loan Program	99,027
		<u>\$ 120,583</u>

NOTE 9 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2014, the carrying amounts of the City's bank accounts were \$3,706,128 and the balances on deposit were \$3,730,023.

Investments:

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. However, the City did not adhere to the local investment policy in that maturity dates of several certificates of deposit exceeded the maximum allowable stated maturity according to the approved investment policy.

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

The City's investments at September 30, 2014, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Various, 12/12/13 - 6/20/16	<u>\$ 1,439,832</u>
Total Investments		<u>\$ 1,439,832</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:

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

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

Investment Accounting Policy

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Contingencies

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

NOTE 11 - DEFERRED COMPENSATION

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

The market value of deferred compensation plan assets was \$220,210 at September 30, 2014.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 16, 2015, the date on which the financial statements were available to be issued.

On February 10, 2015, the City Council approved a resolution to issue Certificates of Obligation in the maximum principal amount of \$3,560,000. The proceeds will be used in connection with 1) constructing and improvement of the City's waterworks and sewer system, 2) constructing and improvement of streets and roads, and 3) paying legal, fiscal, engineering and architectural fees in connection with these projects.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF GILMER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,153,527	\$ 1,153,527	\$ 1,105,769	\$ (47,758)
Penalty and interest	22,000	22,000	14,394	(7,606)
Sales tax	872,000	872,000	914,910	42,910
Franchise taxes	307,990	307,990	340,188	32,198
Fines and forfeitures	212,000	212,000	166,252	(45,748)
Licenses and permits	26,500	26,500	37,441	10,941
Other taxes	35,000	35,000	54,966	19,966
Investment income	1,000	1,000	3,135	2,135
Rents and royalties	8,200	8,200	12,305	4,105
Intergovernmental revenues and grants	61,900	61,900	59,684	(2,216)
Grant revenue	2,000	10,500	12,487	1,987
Miscellaneous	14,640	47,159	46,211	(948)
TOTAL REVENUES	<u>2,716,757</u>	<u>2,757,776</u>	<u>2,767,742</u>	<u>9,966</u>
EXPENDITURES:				
Legislative	25,859	25,859	28,600	(2,741)
Municipal court	81,159	81,159	79,690	1,469
Executive/administration	291,775	347,288	339,967	7,321
Community development	167,535	167,535	142,692	24,843
Financial administration	168,336	175,595	177,622	(2,027)
Police	1,251,339	1,338,459	1,314,792	23,667
Fire protection	541,141	569,981	530,265	39,716
Highways and streets	275,257	451,623	420,315	31,308
Non-departmental	368,529	267,283	187,532	79,751
TOTAL EXPENDITURES	<u>3,170,930</u>	<u>3,424,782</u>	<u>3,221,475</u>	<u>203,307</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(454,173)	(667,006)	(453,733)	213,273
OTHER FINANCING SOURCES (USES):				
Transfers in	578,709	795,443	671,054	(124,389)
Transfers out	(133,891)	(133,891)	(90,048)	43,843
TOTAL OTHER FINANCING SOURCES (USES)	<u>444,818</u>	<u>661,552</u>	<u>581,006</u>	<u>(80,546)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(9,355)	(5,454)	127,273	132,727
FUND BALANCE, OCTOBER 1, 2013	<u>632,893</u>	<u>632,893</u>	<u>632,893</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2014	<u>\$ 623,538</u>	<u>\$ 627,439</u>	<u>\$ 760,166</u>	<u>\$ 132,727</u>

**CITY OF GILMER, TEXAS
ECONOMIC DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Sales tax	\$ 436,000	\$ 436,000	\$ 457,455	\$ 21,455
Investment income	3,000	3,000	4,091	1,091
TOTAL REVENUES	<u>439,000</u>	<u>439,000</u>	<u>461,546</u>	<u>22,546</u>
EXPENDITURES:				
Non-departmental	65,900	65,900	68,618	(2,718)
Debt service - principal	140,000	140,000	140,000	-
Debt service - interest and other charges	185,200	185,200	185,955	(755)
TOTAL EXPENDITURES	<u>391,100</u>	<u>391,100</u>	<u>394,573</u>	<u>(3,473)</u>
EXCESS OF REVENUES OVER EXPENDITURES	47,900	47,900	66,973	19,073
FUND BALANCE, OCTOBER 1, 2013	<u>495,494</u>	<u>495,494</u>	<u>495,494</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2014	<u>\$ 543,394</u>	<u>\$ 543,394</u>	<u>\$ 562,467</u>	<u>\$ 19,073</u>

CITY OF GILMER, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Actuarial Value Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	4,963,570	6,449,233	77.0%	1,485,663	1,776,884	83.6%
12/31/2012	5,403,548	6,774,685	79.8%	1,371,137	1,747,724	78.5%
12/31/2013	5,985,009	7,719,663	77.5%	1,734,654	1,847,778	93.9%

CITY OF GILMER, TEXAS

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ¹ (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL Per Member Covered
	(a)	(b)	(b) - (a)	(a/b)	(c)	(b-a)/(c)
8/31/2008 ²	60,987,157	64,227,341	3,240,184	95.00%	8,254	393
8/31/2010 ³	64,113,803	81,264,230	17,150,427	78.90%	8,644	1,984
8/31/2012 ²	67,987,487	101,856,042	33,868,555	66.70%	9,448	3,585

Notes:

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

Fiscal Year Ended August 31,	Schedule of Employer Contributions		
	Annual Required Contribution	Actual Contribution	Percentage Contributed
	2007	3,162,742	3,162,742
2008	3,160,764	11,239,339	356%
2009	2,698,271	2,698,271	100%
2010	2,875,103	2,875,103	100%
2011	3,125,329	3,125,329	100%
2012	4,423,898	3,517,455	80%

Notes to the Required Supplementary Information

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

Valuation date	August 31, 2012
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Amortization period	Infinity
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75% per year, net of investment expenses
Projected salary increases	N/A
*Includes inflation at	3.50%
Cost-of-living adjustments	None

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COMPLIANCE SECTION

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KAREN A. JACKS & ASSOCIATES, P.C.

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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 the City of Gilmer, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Gilmer, Texas' basic financial statements, and have issued our report thereon dated March 16, 2015.

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 over financial reporting 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 compliance 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, 2015

**CITY OF GILMER, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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

Finding/Recommendation	Current Status
None.	

**CITY OF GILMER, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X No

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, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

None required.

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