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

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. In the general fund, the City has a policy to maintain a minimum of two months of operating expenditures in unassigned fund balance. At September 30, 2016, the City had achieved approximately 2.44 months of operating expenditures in its unassigned fund balance.

m. Net Position Flow Assumption

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

n. Fund Balance Flow Assumption

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

4. Budgetary Data

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

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

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

5. Change in Accounting Policies

In fiscal year 2016, the City adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

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

a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the

Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.

b. Statement No. 73 extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to the financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

c. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which governments should look for guidance.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None reported	Not applicable

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

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

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

Cash Deposits:

At September 30, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $3,705,421 and the bank balance was $3,873,481. The City's cash deposits at September 30, 2016 and during the year ended September 30, 2016, were not entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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

a. Depository: First National Bank

b. The market value of securities pledged as of the date of the highest combined balance on deposit was $0.

c. The highest combined balances of cash, savings and time deposit accounts amounted to $553,266 and occurred during the month of May, 2016.

d. Total amount of FDIC coverage at the time of the largest combined balance was $513,152.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

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

The City's investments at September 30, 2016 are shown below:

Investment or Investment Type	Maturity	Fair Value
Certificates of Deposit	Various, 8/20/17 - 6/20/18	$ 1,451,274
Total Investments		$ 1,451,274

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

D. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 6,330,697	$ --	$ --	$ 6,330,697
Construction in progress	239,616	19,000	239,616	19,000
Total capital assets not being depreciated	6,570,313	19,000	239,616	6,349,697
Capital assets being depreciated:				
Infrastructure	3,978,620	1,440,158	--	5,418,778
Buildings and improvements	3,724,838	222,930	--	3,947,768
Machinery, furniture and equipment	2,359,411	169,494	--	2,528,905
Total capital assets being depreciated	10,062,869	1,832,582	--	11,895,451
Less accumulated depreciation for:				
Infrastructure	(3,157,763)	(385,735)	--	(3,543,498)
Buildings and improvements	(1,308,992)	(104,002)	--	(1,412,994)
Machinery, furniture and equipment	(1,578,070)	(149,757)	--	(1,727,827)
Total accumulated depreciation	(6,044,825)	(639,494)	--	(6,684,319)
Total capital assets being depreciated, net	4,018,044	1,193,088	--	5,211,132
Governmental activities capital assets, net	$ 10,588,357	$ 1,212,088	$ 239,616	$ 11,560,829

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 4,525,164	$ --	$ --	$ 4,525,164
Construction in progress	628,331	676,790	548,908	756,213
Total capital assets not being depreciated	5,153,495	676,790	548,908	5,281,377

Capital assets being depreciated:				
Land improvements	5,111,891	--	--	5,111,891
Infrastructure	14,132,874	854,905	764,514	14,223,265
Buildings and improvements	944,942	--	--	944,942
Machinery, furniture and equipment	772,808	--	--	772,808
Total capital assets being depreciated	20,962,515	854,905	764,514	21,052,906
Less accumulated depreciation for:				
Land improvements	(1,292,232)	(81,327)	--	(1,373,559)
Infrastructure	(6,245,889)	(148,448)	(191,128)	(6,203,209)
Buildings and improvements	(213,800)	(16,293)	--	(230,093)
Machinery, furniture and equipment	(389,960)	(137,067)	--	(527,027)
Total accumulated depreciation	(8,141,881)	(383,135)	(191,128)	(8,333,888)
Total capital assets being depreciated, net	12,820,634	471,770	573,386	12,719,018
Business-type activities capital assets, net	$ 17,974,129	$ 1,148,560	$ 1,122,294	$ 18,000,395

Depreciation was charged to functions as follows:

General Government:	
Legislative	$ 4,461
Municipal court	11,214
Executive/Administration	64,138
Community development	23,432
Financial administration	25,472
Police	211,040
Fire protection	82,271
Highways and streets	166,227
Civic center	51,239
	$ 639,494
Business-Type Activities:	
Water and sewer	$ 334,569
Airport	48,566
	$ 383,135

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2016, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Economic Development Fund	General Fund	$ 41,507	Sales tax receivable
Water & Sewer Fund	General Fund	918,092	Series 2015 bond proceeds
Sanitation Fund	General Fund	66,865	Interfund loan
Water & Sewer Fund	Economic Development Fund	6,271	Sales tax accrual
	Total	$ 1,032,735	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2016, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	Water & Sewer Fund	$ 109,658	Fund repairs related to streets
General Fund	Other Governmental Funds	100,445	Fund repairs and operations
Debt Service Fund	Water & Sewer Fund	420,703	Fund debt service requirements
Water & Sewer Fund	General Fund	569,384	Budgeted transfers for capital projects
Sanitation Fund	General Fund	105,608	Fund current operations
Economic Development	Water & Sewer Fund	80,002	Fund capital projects
	Total	$ 1,385,800	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Obligations of the City:					
Tax and revenue certificates of obligation	$ 1,810,000	$ --	$ 104,228	$ 1,705,772	122,023
Premium on issuance of debt	40,179	--	3,348	36,831	--
Compensated absences	103,411	--	19,172	84,239	--
Total obligations of the City	1,953,590	--	126,748	1,826,842	122,023
Obligations of Economic Development Corp:					
Sales tax revenue bonds	3,850,000		150,000	3,700,000	155,000
Discount on issuance of debt	(18,995)		(1,063)	(17,932)	--
Total obligations of EDC	3,831,005	--	148,937	3,682,068	155,000
Total governmental activities	$ 5,784,595	$ --	$ 275,685	$ 5,508,910	$ 277,023
Business-type activities:					
Refunding bonds	$ 8,315,000	$ --	$ 495,000	$ 7,820,000	500,000
Tax and revenue certificates of obligation	1,750,000	--	100,772	1,649,228	117,977
Premium on issuance of debt	282,712	--	21,592	261,120	--
Total business-type activities	$ 10,347,712	$ --	$ 617,364	$ 9,730,348	$ 617,977

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2016, are as follows:

	Governmental Activities		
Year Ending September 30,	Principal	Interest	Total
2017	$ 277,023	$ 212,185	$ 489,208
2018	289,649	202,324	491,973
2019	302,275	192,035	494,310
2020	322,528	180,905	503,433
2021	337,612	170,629	508,241
2022-2026	1,838,820	681,365	2,520,185
2027-2031	1,442,865	349,389	1,792,254
2032-2034	595,000	45,000	640,000
Totals	$ 5,405,772	$ 2,033,832	$ 7,439,604

	Business-type Activities		
Year Ending September 30,	Principal	Interest	Total
2017	$ 617,977	$ 289,493	$ 907,470
2018	630,351	275,129	905,480
2019	642,725	259,568	902,293
2020	652,472	243,636	896,108
2021	657,388	226,987	884,375
2022-2026	3,576,180	852,638	4,428,818
2027-2031	1,807,135	361,101	2,168,236
2032-2034	885,000	76,076	961,076
Totals	$ 9,469,228	$ 2,584,628	$ 12,053,856

The following is a list of General Obligation Bonds and Revenue Bonds payable at September 30, 2016:

Governmental Activities:

Certificates of Obligation	
2015 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 2.0% to 3.0% due semi-annually through August 25, 2027.	$ 1,705,772
Sales Tax and Revenue Bonds	
(an obligation of Gilmer Economic Development Corporation, a blended component unit of the City of Gilmer)	
2011 Sales Tax and Revenue Bonds; principal plus interest varying from 4.0% to 5.0% due semi-annually through July 15, 2033.	3,700,000
Total Governmental Activities	$ 5,405,772

Business-Type Activities:

Refunding Bonds	
2010 Waterworks and Sewer System Refunding Bonds; principal plus interest varying from 3.0% to 4.25% due semi-annually through July 1, 2034.	$ 4,040,000
2013 General Obligation Refunding Bonds Series 2013; principal plus interest varying from 2.0% to 3.0% due semi-annually through May 15, 2027.	3,780,000
Total Refunding Bonds	7,820,000
Tax and Revenue Certificates of Obligation	
2015 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 2.0% to 3.0% due semi-annually through August 15, 2027.	1,649,228
Total Certificates of Obligation	1,649,228
Total Business-Type Activities	$ 9,469,228

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels;

however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plan

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

1. Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

2. Benefits Provided

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

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

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

Employee deposit rate	6.00%
Matching ratio (city to employee)	2:1
Updated service credit rate	100T
Annuity increase	70.00%
Vesting requirements	5 years
Service retirement eligibilities (expressed as age/years of service)	60/5; 0/20

Employees covered by benefit terms:

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	28
Active employees	47
Total covered employees	106

3. Contributions

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

Employees for the City were required to contribute 6.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.65% and 13.17% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were $282,331, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	$ 7,981,858	$ 6,702,228	$ 1,279,630
Changes for the year			
Service cost	279,905	--	279,905
Interest	556,162	--	556,162
Change of benefit terms	--	--	--
Difference between expected and actual experience	(18,474)	--	(18,474)
Changes of assumptions	26,163	--	26,163
Contributions - employer	--	273,687	(273,687)
Contributions - employee	--	120,303	(120,303)
Net investment income	--	9,890	(9,890)
Benefit payments, including refunds of employee contributions	(353,280)	(353,280)	--
Administrative expense	--	(6,024)	6,024
Other changes	--	(296)	296
Net changes	490,476	44,280	446,196
Balance at 12/31/2015	$ 8,472,334	$ 6,746,508	$ 1,725,826

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
City's net pension liability	$ 2,969,498	$ 1,725,826	$ 717,232

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized pension expense of $320,310.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ --	$ (87,124)
Changes in actuarial assumptions	19,205	--
Difference between projected and actual investment earnings	416,047	--
Contributions subsequent to the measurement date	198,940	--
Total	$ 634,192	$ (87,124)

$198,940 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:		
2016	$	67,380
2017	$	79,276
2018	$	109,617
2019	$	91,855
2020	$	--
Thereafter	$	--

6. Supplemental Death Benefits Fund

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

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

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

The City's contribution to the TMRS SDBF for the years ended 2016, 2015 and 2014 were $5,050, $4,948 and $4,574, respectively, which equaled the required contribution each year.

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)

1. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the "System") established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the system is classified in the financial statements as pension trust funds. The System issues a stand- alone financial report that is available to the public at www.tesrs.org.

Of the nine member State Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. On August 31 of the following years, contributing fire and/or emergency services department members participating in TESRS were:

	Contributing Departments
2014	198
2015	197

Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

2. Benefits Provided

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

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at a rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

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 or continuing monthly payments to a member's surviving spouse and dependent children.

3. Covered Membership

On August 31 of the following fiscal years, the pension system membership consisted of:

	2014	2015
Retirees and beneficiaries currently receiving benefits	3,073	2,991
Terminated members entitled to but not yet receiving benefits	2,161	2,211
Active participants	4,036	4,016

4. Funding Policy

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

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

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

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

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

5. 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 are set by board rule, and there is no maximum contribution rate. For fiscal year ending August 31, 2015, total contributions (dues, prior service, and interest on prior service financing) of $3,515,546 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated $1,637,308 for the fiscal year ending August 31, 2015.

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

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

6. Net Pension Liability

The System's net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014 and rolled forward to August 31, 2015.

Total pension liability	$ 115,520,991
Plan fiduciary net position	88,828,460
System's net pension liability	$ 26,692,531
Plan fiduciary net position as a percentage of the total pension liability	76.90%

Actuarial Assumptions

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

Inflation	3.50%
Salary increases	N/A
Investment rate of return	7.75% , net pension plan investment expense, including inflation

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.45%) and by adding expected inflation (3.50%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnership	5%	7.1%
Fixed income		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0	0.0%
Total	100%	
Weighted average		4.45%

Discount Rate

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

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

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
City's proportionate share of the net pension liability	$ 56,045	$ 32,031	$ 18,193
System's net pension liability	$ 46,704,033	$ 26,692,531	$ 15,160,925

Pension Plan Fiduciary Net Position

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

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

At September 30, 2016, the City reported a liability of $32,031 for its proportionate share of the TESRS's net pension liability.

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net penson liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan relative to the contributions of all participating departments to the plan for the period September 1, 2014 through August 31, 2015.

For the year ended September 30, 2016, the City recognized pension expense of $3,902.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ --	$ --
Changes in actuarial assumptions	--	--
Difference between projected and actual investment earnings	5,884	--
Contributions subsequent to the measurement date	8,251	--
Total	$ 14,135	$ --

$8,251 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:		
2017	$	1,127
2018	$	1,127
2019	$	1,127
2020	$	2,503
2021	$	--
Thereafter	$	--

AGGREGATION OF PENSION RELATED BALANCES

The following is an aggregation of pension related balances reflected in the financial statements:

	TMRS	TESRS	Total
Deferred outflow of resources related to pensions	$ 634,192	$ 14,135	$ 648,327
Net pension liability	1,725,826	32,031	1,757,857
Deferred inflows of resources related to pensions	87,124	--	87,124
Pension expenses/expenditures	320,310	3,902	324,212

I. Health Care Coverage

The City of Gilmer provides health and dental insurance benefits for its employees. The City contracts with the Texas Municipal League for health insurance. The City does not retain any risk of loss for health care benefits. The total cost to the City of Gilmer for the fiscal year ended September 30, 2016 was $304,144. The cost of health and dental insurance benefits is recognized as an expenditure as it is paid. The general fund contributed $248,428, the water and sewer fund contributed $49,525, and other governmental funds contributed $6,191.

J. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30, 2016.

K. Subsequent Events

Management has evaluated subsequent events through March 23, 2017, the date on which the financial statements were available to be issued.

L. Deferred Compensation

Employees of the City may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plan with Respect to Service for State and Local

Governments). The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

An unrelated financial institution administers the deferred compensation plan. Under the terms of GASB Statement No. 32, an IRC Section 457 deferred compensation plan's deferred compensation and income attributable to the investment of deferred compensation amounts are held in trust, until paid or made available to the employees or beneficiaries and are the property of the employees and are not accessible by the City or its creditors.

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

M. Restricted Fund Balance and Net Position

As of September 30, 2016, fund balances restricted for specific purposes were as follows:

General Fund			
	Hotel-Motel tax	$	32,090
	Court restricted funds		13,947
	LEOSE		6,181
	Wal-Mart grant for police department		3,423
	Police Officers Fund		272
		$	55,913
Other Governmental Funds			
	Police Dept. Seizure Fund	$	11,614
	Civic Center		381
	USDA Loan Program		113,699
		$	125,694

As of September 30, 2016, net position restricted for specific purposes were as follows:

Governmental Activites			
	Hotel-Motel tax	$	32,090
	Court restricted funds		13,947
	LEOSE		6,181
	Wal-Mart grant for police department		3,423
	Police Officers Fund		272
	Police Dept. Seizure Fund		11,614
	Civic Center		381
	USDA Loan Program		113,699
		$	181,607

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Required Supplementary Information

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

CITY OF GILMER, TEXAS **EXHIBIT B-1**

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Property taxes	$ 1,163,638	$ 1,163,638	$ 1,200,079	$ 36,441
Penalty and interest	14,000	14,000	24,188	10,188
Sales tax	1,012,537	1,012,537	1,069,030	56,493
Franchise fees	335,277	335,277	318,246	(17,031)
Other taxes	48,000	48,000	61,625	13,625
Fines and forfeitures	202,100	202,100	231,060	28,960
Licenses and permits	21,200	21,200	26,856	5,656
Intergovernmental revenue and grants	58,000	64,045	73,540	9,495
Investment income	3,040	3,040	16,656	13,616
Rents and royalties	9,000	9,000	5,462	(3,538)
Grant revenue	2,800	102,800	101,831	(969)
Other revenue	21,372	58,168	60,149	1,981
TOTAL REVENUES	2,890,964	3,033,805	3,188,722	154,917
EXPENDITURES:				
Legislative	31,073	31,073	26,940	4,133
Municipal court	85,977	85,977	86,969	(992)
Executive/administration	312,961	312,961	392,383	(79,422)
Community development	188,313	192,853	166,289	26,564
Financial administration	163,498	163,498	156,835	6,663
Police	1,397,947	1,423,953	1,350,297	73,656
Fire protection	589,434	708,479	692,493	15,986
Highways and streets	282,569	2,168,413	2,116,784	51,629
Parks	--	--	500	(500)
Non-departmental	252,887	252,887	193,396	59,491
Contingency	6,120	6,120	--	6,120
TOTAL EXPENDITURES	3,310,779	5,346,214	5,182,886	163,328
Excess (Deficiency) of Revenues Over (Under) Expenditures	(419,815)	(2,312,409)	(1,994,164)	288,244
Other Financing Sources (Uses):				
Transfers In	552,012	681,262	674,992	(6,270)
Transfers Out	(167,957)	(1,089,288)	(210,104)	879,184
Total Other Financing Sources (Uses)	384,055	(408,026)	464,888	872,914
Net Change in Fund Balances	(35,760)	(2,720,435)	(1,529,276)	1,161,158
Fund Balances - Beginning	2,991,492	2,991,492	2,991,492	--
Fund Balances - Ending	$ 2,955,732	$ 271,057	$ 1,462,216	$ 1,161,158

CITY OF GILMER, TEXAS **EXHIBIT B-2**
ECONOMIC DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Sales Tax	$ 505,969	$ 505,969	$ 533,044	$ 27,075
Investment income	3,000	3,000	4,767	1,767
TOTAL REVENUES	508,969	508,969	537,811	28,842
EXPENDITURES:				
Debt service -principal	150,000	150,000	150,000	--
-interest	178,075	178,075	178,075	--
-fees	750	750	750	--
TOTAL EXPENDITURES	328,825	328,825	328,825	--
Excess of Revenues Over Expenditures	180,144	180,144	208,986	28,842
Other Financing Sources (Uses):				
Transfers out	(75,895)	(75,895)	(80,002)	(4,107)
Total Other Financing Sources (Uses)	(75,895)	(75,895)	(80,002)	4,107
Net Change in Fund Balances	104,249	104,249	128,984	32,949
Fund Balances - Beginning	665,632	665,632	665,632	--
Fund Balances - Ending	$ 769,881	$ 769,881	$ 794,616	$ 24,735

CITY OF GILMER, TEXAS

EXHIBIT B-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 579,940	$ 579,940	$ 604,413	$ 24,473
Investment income	--	--	304	304
TOTAL REVENUES	579,940	579,940	604,717	24,777
EXPENDITURES:				
Debt service -principal	205,000	205,000	104,228	100,772
-interest	106,720	106,720	54,259	52,461
-fees	1,500	1,500	1,825	(325)
TOTAL EXPENDITURES	313,220	313,220	160,312	152,908
Excess (Deficiency) of Revenues Over (Under) Expenditures	266,720	266,720	444,405	177,685
Other Financing Sources (Uses):				
Transfers in	168,580	168,580	--	(168,580)
Transfers out	(435,300)	(435,300)	(420,703)	14,597
Total Other Financing Sources (Uses)	(266,720)	168,580	(420,703)	(153,983)
Net Change in Fund Balances	--	--	23,702	23,702
Fund Balances - Beginning	13,871	13,871	13,871	--
Fund Balances - Ending	$ 13,871	$ 13,871	$ 37,573	$ 23,702

EXHIBIT B-4

CITY OF GILMER, TEXAS

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

	Fiscal Year 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total pension liability:										
Service cost	$ 279,905	$ 251,495	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Interest	556,162	536,347	--	--	--	--	--	--	--	--
Changes of benefit terms	--	--	--	--	--	--	--	--	--	--
Differences between expected and actual experience	(18,474)	(159,024)	--	--	--	--	--	--	--	--
Changes of assumptions	26,163	--	--	--	--	--	--	--	--	--
Benefit payments, including refunds of employee contributions	(353,280)	(366,623)	--	--	--	--	--	--	--	--
Net change in total pension liability	490,476	262,195	--	--	--	--	--	--	--	--
Total pension liability - beginning	7,981,858	7,719,663								
Total pension liability - ending (a)	$ 8,472,334	$ 7,981,858	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Plan fiduciary net position:										
Contributions - employer	273,687	254,283	--	--	--	--	--	--	--	--
Contributions - employee	120,303	116,111	--	--	--	--	--	--	--	--
Net investment income	9,890	362,730	--	--	--	--	--	--	--	--
Benefit payments, including refunds of employee contributions	(353,280)	(366,623)	--	--	--	--	--	--	--	--
Administrative expense	(6,024)	(3,787)	--	--	--	--	--	--	--	--
Other	(298)	(311)	--	--	--	--	--	--	--	--
Net change in plan fiduciary net position	44,278	362,403	--	--	--	--	--	--	--	--
Plan fiduciary net position - beginning	6,702,228	6,339,825	--	--	--	--	--	--	--	--
Plan fiduciary net position - ending (b)	$ 6,746,506	$ 6,702,228	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
City's net pension liability - ending (a) - (b)	$ 1,725,828	$ 1,279,630	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Plan fiduciary net position as a percentage of the total pension liability	79.63%	83.97%	--	--	--	--	--	--	--	--
Covered-employee payroll	$ 2,005,048	$ 1,935,190	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
City's net pension liability as a percentage of covered-employee payroll	86.07%	66.12%	--	--	--	--	--	--	--	--

Notes to Schedule:

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

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

	Fiscal Year 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 282,331	$ 270,386	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Contributions in relation to the actuarially determined contribution	(282,331)	(270,386)	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
City's covered-employee payroll	$ 2,104,321	$ 2,002,551	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Contributions as a percentage of covered-employee payroll	13.42%	13.50%	--	--	--	--	--	--	--	--

Notes to Schedule

Valuation date:

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

Method and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years
Asset valuation method	10-year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.5% to 12.00%, including inflation
Investment rate of return	7.00%
Retirement age	Experienced-based table of rates that are specific to the City's plan and benefits Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

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

EXHIBIT B-6

CITY OF GILMER, TEXAS

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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
City's proportion of the net pension liability (asset)	0.120%	0.099%	--	--	--	--	--	--	--	--
City's proportionate share of the net pension liability (asset)	$ 32,031	$ 17,990	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
State's proportionate share of the net pension liability associated with the City	49,024	27,172	--	--	--	--	--	--	--	--
	$ 81,055	$ 45,162	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
City's covered-employee payroll	N/A	N/A	$	$ --	$	$ --	$	$ --	$	$ --
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	N/A	N/A	--	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	76.90%	83.50%	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.a requires that the information on this schedule be data from the period corresponding with the period covered as of the TESRS measurement date of August 31, 2015 - the period from September 1, 2014 - August 31, 2015.

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

CITY OF GILMER, TEXAS

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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	$ 8,251	$ 8,408	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Contributions in relation to the contractually required contribution	(8,251)	(8,408)	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
City's covered-employee payroll	N/A	N/A	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Contributions as a percentage of covered-employee payroll	N/A	N/A	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the City's current fiscal year as opposed to the time period covered by the measurement date of August 31, 2015 - the period from September 1, 2014 - August 31, 2015.

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

Compliance Section

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

P.O. Box 3167
Longview, Texas 75606

1501 Colony Circle
Longview, Texas 75604

Phone: 903·238·8822

Fax: 903·238·9838

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

Sherry Davis, CPA
Chanie A. Johnson, CPA

Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

Honorable Mayor and City Council
City of Gilmer, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilmer, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Gilmer, Texas' basic financial statements, and have issued our report thereon dated March 23, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gilmer, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
March 23, 2017

CITY OF GILMER, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
One or more material weaknesses identified?	____	Yes	X	No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

B. Financial Statement Findings

NONE

CITY OF GILMER, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

CITY OF GILMER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2016

None required.

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