

CITY OF GILMER, TEXAS

FINANCIAL STATEMENTS

September 30, 2013

PRINCIPAL OFFICIALS

September 30, 2013

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, 2013
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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, 2013, 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, 2013, 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 April 1, 2014, 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

April 1, 2014

City of Gilmer, Texas

Management's Discussion and Analysis

For Year Ended September 30, 2013

As management of the City of Gilmer, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2013. 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 During the year ended September 30, 2013, the City of Gilmer refunded a major portion of the 2001 Tax and Revenue bond, reducing long term debt and creating an adjustment from the loss on the defeasance of debt, of \$587,959 to assets. This refund also provided the City with a savings, in interest, of \$784,501 over the next fifteen years.
- i The City of Gilmer's assets and deferred outflows of resources at September 30, 2013 totaled \$33,968,553 compared to its liabilities of \$14,869,236; the excess of assets over liabilities (net position) was \$19,099,317. However, with the adjustment from the loss on the defeasance of debt, total net position increased over last year's by \$519,485, or 3% compared to the net position at September 30, 2012.
- i During the year ended September 30, 2013, the City of Gilmer reworked all of the water storage tanks, at a cost of \$180,000, paid out of capital projects funds available in the Water & Sewer Fund. These water tanks were cleaned, repainted and needed new support beams inside and outside the structures to ensure stability.
- i During the year ended September 30, 2013, the City of Gilmer reworked two pumps at two different water wells, at a cost of \$72,000; paid out of capital projects funds available in the Water & Sewer Fund.
- i Total General Fund revenues were \$2,660,509 with expenditures of \$2,897,089. There were also net transfers into the General Fund from Proprietary funds of \$528,396, which resulted in an increase of fund balance of \$291,816. At September 30, 2013 the General Fund had a fund balance of \$632,894.
- i During the year ended September 30, 2013, the City implemented the provisions of Governmental Accounting Standards Board Statements No. 63 and 65. As a result, the financial statements report prior period adjustments in the amount of \$342,574 as a reduction of net position.

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 \$19,099,317, as of September 30, 2013, an increase of \$519,485 from the previous year.

The largest portion of the City's assets, 77%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GILMER'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current and other assets	\$1,767,359	\$1,713,083	\$2,739,304	\$2,706,754	\$4,506,663	\$4,419,837
Capital assets	11,390,857	11,123,990	17,895,346	17,836,767	29,286,203	28,960,757
Total assets	13,158,216	12,837,073	20,634,650	20,543,521	33,792,866	33,380,594
Loss on defeasance of debt	--	--	--	587,959	--	587,959
Current liabilities	598,990	565,223	904,045	1,214,013	1,503,035	1,779,236
Noncurrent liabilities, due in more than one year	4,380,000	4,120,000	9,330,000	8,970,000	13,710,000	13,090,000
Total liabilities	4,978,990	4,685,223	10,234,045	10,184,013	15,213,035	14,869,236
Net Position:						
Net investment in capital assets	6,959,543	6,765,110	8,295,496	7,961,192	15,255,039	14,726,302
Restricted	814,308	701,565	112,609	107,149	926,917	808,714
Unrestricted	405,375	685,175	1,992,501	2,879,126	2,397,876	3,564,301
Total Net Position	\$8,179,226	\$8,151,850	\$10,400,606	\$10,947,467	\$18,579,832	\$19,099,317

Analysis of the City's Operations- Overall the City had an increase in net position of \$519,485. Governmental activities decreased the net position by \$27,376 and net position from business-type activities increased by \$546,861.

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

CITY OF GILMER'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
REVENUES:						
PROGRAM REVENUES:						
Charges for services	\$371,881	\$356,838	\$2,960,930	\$3,038,290	\$3,332,811	\$3,395,128
Operating grants & contributions	101,426	5,000	9018	12620	110,444	17,620
GENERAL REVENUES:						
Property taxes, levied for general purposes	1,028,766	1,053,438	--	--	1,028,766	1,053,438
Property taxes, levied for debt services	573,601	599,463	--	--	573,601	599,463
Sales taxes	897,207	938,744	--	--	897,207	938,744
Sales tax for Economic Development	448,607	469,372	--	--	448,607	469,372
Franchise taxes	213,583	231,683	--	--	213,583	231,683
Other taxes	37,161	49,427	--	--	37,161	49,427
Penalty and interest	36,067	19,160	--	--	36,067	19,160
Miscellaneous revenue	69,987	62,004	--	--	69,987	62,004
Investment earnings	7,791	6,995	12,838	13,285	20,629	20,280
Rents and royalties	--	--	--	--	--	--
Sale of equipment	51,675	--	-1929	-129,566	49,746	-129,566
Transfers in (out)	-79,029	-56,808	79,029	56,808	--	--
TOTAL REVENUES	3,758,723	3,735,316	3,059,886	2,991,437	6,818,609	6,726,753
EXPENSES:						
Legislative	26,648	29,319	--	--	26,648	29,319
Municipal court	84,607	84,941	--	--	84,607	84,941
Executive/administration	283,460	301,865	--	--	283,460	301,865
Community development	146,795	158,730	--	--	146,795	158,730
Financial administration	157,033	174,736	--	--	157,033	174,736
Police	1,276,380	1,311,700	--	--	1,276,380	1,311,700
Fire protection	501,689	561,236	--	--	501,689	561,236
Highways and Streets	397,148	343,217	--	--	397,148	343,217
Civic center	173,044	161,387	--	--	173,044	161,387
Non departmental	241,875	248,873	--	--	241,875	248,873
Interest & fiscal agent fees	221,642	205,170	--	--	221,642	205,170
Water & sewer	--	--	1,595,551	1,567,952	1,595,551	1,567,952
Sanitation	--	--	632,599	641,935	632,599	641,935
Airport	--	--	70,427	73,633	70,427	73,633
TOTAL EXPENSES	3,510,321	3,581,174	2,298,577	2,283,520	5,808,898	5,864,694
CHANGES IN NET POSITION	248,402	154,142	761,309	707,917	1,009,711	862,059
NET POSITION – BEGINNING	7,930,824	8,179,226	9,639,297	10,400,606	17,570,121	18,579,832
PRIOR PERIOD ADJUSTMENT	--	-181,518	--	-161,056	--	-342,574
NET POSITION - ENDING	\$8,179,226	\$8,151,850	\$10,400,606	\$10,947,467	\$18,579,832	\$19,099,317

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds- The focus of the City of Gilmer's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Gilmer's governmental funds reported combined ending fund balances of \$1,338,435 which is an increase of \$162,258 from last fiscal year's balance of \$1,176,177. Of the current balance, \$567,541 constitutes unrestricted fund balance. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been obligated for debt service or other purposes.

Proprietary funds- The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the respective proprietary funds are Water and Sewer- \$2,157,534 and Sanitation- \$716,999.

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 \$34,782 while total expenditures were under budget by \$294,093.

CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2013 amounts to \$28,960,757 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery & equipment and construction in progress. Part of the increase in infrastructure was from the repairs of the water towers and water well pumps.

	Capital Assets at Year-end					
	Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Land	\$6,330,697	\$6,330,697	\$4,525,164	\$4,525,164	\$10,855,861	\$10,855,861
Infrastructure	1,591,323	1,501,748	8,470,011	8,587,392	10,061,334	10,089,140
Buildings	2,541,324	2,435,483	787,284	767,658	3,328,608	3,203,141
Improvements, other than bldgs	--	--	3,883,706	3,817,142	3,883,706	3,817,142
Machinery & equip	927,513	856,062	223,931	139,411	1,151,444	995,473
Construction in progress	--	--	5,250	--	5,250	--
Total	\$11,390,857	\$11,123,990	\$17,895,346	\$17,836,767	\$29,286,203	\$28,960,757

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$13,975,000. Of this amount, \$245,000 comprises bonded debt backed by the full faith and credit of the government, while \$8,720,000 represents bonds secured solely by water and sewer revenues and \$875,000 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 \$4,135,000 does not constitute an obligation of the City of Gilmer, but is reported herein as an obligation of its component unit, Gilmer Economic Development Corporation. Without this amount reported, the City of Gilmer's outstanding debt decreased from \$10,245,000 to \$9,840,000, a decrease of \$405,000, or approx. 4%.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
General Obligation Bonds	\$360,000	\$245,000	--	--	\$360,000	\$245,000
Revenue Bonds Payable	--	--	4,655,000	8,720,000	\$4,655,000	\$8,720,000
Tax & Revenue CO	--	--	5,230,000	875,000	\$5,230,000	\$875,000
Sub-total	\$360,000	\$245,000	\$9,885,000	\$9,595,000	\$10,245,000	\$9,840,000
Sales & Tax Revenue Bonds ****	--	--	4,275,000	4,135,000	\$4,275,000	\$4,135,000
Total	\$360,000	\$245,000	\$14,160,000	\$13,730,000	\$14,520,000	\$13,975,000

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2013-2014 budget and rates. Sales tax receipts had shown an increase in fiscal year 2012-2013, over the previous two years; however, there were several high audit collections included in the totals, and with that in mind, the sales tax was budgeted conservatively for the fiscal year 2013-2014. The property tax rate for 2013-2014 is set at .635424/\$100. Property values increased 6% for the 2013-2014 budget year over 2012-2013. 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, 2013**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,015,795	\$ 1,266,117	\$ 2,281,912
Investments	437,056	893,868	1,330,924
Receivables (net of allowance for uncollectibles):			
Taxes	239,862	-	239,862
Accounts	-	425,217	425,217
Notes	33,683	-	33,683
Other	87,119	-	87,119
Internal balances	(121,552)	121,552	-
Discount on bond issuance	21,120	-	21,120
Capital assets (net of accumulated depreciation):			
Land	6,330,697	4,525,164	10,855,861
Improvements	1,501,748	12,404,534	13,906,282
Buildings and improvements	2,435,483	767,658	3,203,141
Furniture and equipment	856,062	139,411	995,473
Total assets	<u>12,837,073</u>	<u>20,543,521</u>	<u>33,380,594</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on defeasance of debt	-	587,959	587,959
Total deferred outflows	<u>-</u>	<u>587,959</u>	<u>587,959</u>
LIABILITIES			
Accounts payable	67,094	81,640	148,734
Accrued wages	75,798	15,764	91,562
Other liabilities	404	-	404
Accrual for compensated absences	106,970	27,187	134,157
Accrued interest payable	50,457	82,329	132,786
Unearned revenue	4,500	-	4,500
Customer deposits	-	101,518	101,518
Noncurrent liabilities:			
Premium on issuance of debt	-	280,575	280,575
Due within one year	260,000	625,000	885,000
Due in more than one year	<u>4,120,000</u>	<u>8,970,000</u>	<u>13,090,000</u>
Total liabilities	<u>4,685,223</u>	<u>10,184,013</u>	<u>14,869,236</u>
NET POSITION			
Net investment in capital assets	6,765,110	7,961,192	14,726,302
Restricted for debt service	545,015	107,149	652,164
Restricted for other purposes	156,550	-	156,550
Unrestricted	<u>685,175</u>	<u>2,879,126</u>	<u>3,564,301</u>
Total net position	<u>\$ 8,151,850</u>	<u>\$ 10,947,467</u>	<u>\$ 19,099,317</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, 2013**

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	\$ 29,319	\$ -	\$ -	\$ -	\$ (29,319)		\$ (29,319)
Municipal court	84,941	-	-	-	(84,941)		(84,941)
Executive/administration	301,865	-	-	-	(301,865)		(301,865)
Community development	158,730	28,525	-	-	(130,205)		(130,205)
Financial administration	174,736	-	-	-	(174,736)		(174,736)
Police	1,311,700	217,824	5,000	-	(1,088,876)		(1,088,876)
Fire protection	561,236	64,089	-	-	(497,147)		(497,147)
Highways and streets	343,217	-	-	-	(343,217)		(343,217)
Civic center	161,387	46,400	-	-	(114,987)		(114,987)
Non-departmental	248,873	-	-	-	(248,873)		(248,873)
Interest and fiscal agent fees	205,170	-	-	-	(205,170)		(205,170)
Total governmental activities	<u>3,581,174</u>	<u>356,838</u>	<u>5,000</u>	<u>-</u>	<u>(3,219,336)</u>		<u>(3,219,336)</u>
Business-type activities:							
Water and sewer	1,567,952	2,130,171	-	-		\$ 562,219	562,219
Sanitation	641,935	839,962	-	-		198,027	198,027
Airport	73,633	68,157	12,620	-		7,144	7,144
Total business-type activities	<u>2,283,520</u>	<u>3,038,290</u>	<u>12,620</u>	<u>-</u>		<u>767,390</u>	<u>767,390</u>
Total primary government	\$ 5,864,694	\$ 3,395,128	\$ 17,620	\$ -	\$ (3,219,336)	\$ 767,390	\$ (2,451,946)
General revenues							
Property taxes, levied for general purposes					1,053,438	-	1,053,438
Property taxes, levied for debt service					599,463	-	599,463
Sales taxes					938,744	-	938,744
Sales taxes for Economic Development					469,372	-	469,372
Franchise taxes					231,683	-	231,683
Other taxes					49,427	-	49,427
Penalty and interest					19,160	-	19,160
Investment earnings					6,995	13,285	20,280
Miscellaneous					62,004	-	62,004
Sale of assets					-	(129,566)	(129,566)
Transfers in (out)					(56,808)	56,808	-
Total general revenues and transfers					<u>3,373,478</u>	<u>(59,473)</u>	<u>3,314,005</u>
Change in net position					154,142	707,917	862,059
Net position - beginning					8,179,226	10,400,606	18,579,832
Prior period adjustment					(181,518)	(161,056)	(342,574)
Net position - beginning, as restated					<u>7,997,708</u>	<u>10,239,550</u>	<u>18,237,258</u>
Net assets - ending					<u>\$ 8,151,850</u>	<u>\$ 10,947,467</u>	<u>\$ 19,099,317</u>

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

**CITY OF GILMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and cash equivalents	\$ 654,587	\$ 29,161	\$ 170,376	\$ 161,671	\$ 1,015,795
Investments	100,299	-	336,757	-	437,056
Receivables:					
Taxes	239,862	-	-	-	239,862
Due from other funds	-	70,817	33,840	-	104,657
Notes receivable	-	-	-	33,683	33,683
Other receivable	25,620	-	-	-	25,620
TOTAL ASSETS	\$ 1,020,368	\$ 99,978	\$ 540,973	\$ 195,354	\$ 1,856,673
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ 64,076	\$ -	\$ -	\$ 3,018	\$ 67,094
Due to other funds	100,730	-	45,479	80,000	226,209
Unearned revenue	4,500	-	-	-	4,500
Other liabilities	404	-	-	-	404
Accrued wages	74,101	-	-	1,697	75,798
Accrual for compensated absences	5,320	-	-	570	5,890
TOTAL LIABILITIES	249,131	-	45,479	85,285	379,895
DEFERRED INFLOWS OF RESOURCES:					
Deferred property tax revenue	138,343	-	-	-	138,343
TOTAL DEFERRED INFLOWS OF RESOURCES	138,343	-	-	-	138,343
FUND BALANCE					
Restricted for debt service	-	99,978	495,494	-	595,472
Restricted for other purposes	46,481	-	-	110,069	156,550
Assigned	18,872	-	-	-	18,872
Unassigned	567,541	-	-	-	567,541
TOTAL FUND BALANCE	632,894	99,978	495,494	110,069	1,338,435
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,020,368	\$ 99,978	\$ 540,973	\$ 195,354	\$ 1,856,673

(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, 2013**

Total fund balances - governmental funds balance sheet	\$ 1,338,435
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	11,123,990
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	138,343
Liabilities for bond principal which are not due in the current period are not reported in the funds.	(4,380,000)
Unamortized discounts on issuance of bonds are not reported in the funds.	21,120
Liabilities for accrued interest which are not due in the current period are not reported in the funds.	(50,457)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(101,080)
Court fines receivable unavailable to pay for current period expenditures are not reported in the funds.	<u>61,499</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ 8,151,850</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, 2013

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,046,383	\$ 599,463	\$ -	\$ -	\$ 1,645,846
Penalty and interest	19,160	-	-	-	19,160
Sales tax	938,744	-	469,372	-	1,408,116
Franchise taxes	231,683	-	-	-	231,683
Other taxes	49,427	-	-	-	49,427
Fines and forfeitures	208,254	-	-	5,779	214,033
Licenses and permits	28,525	-	-	-	28,525
Intergovernmental revenue and grants	69,089	-	-	-	69,089
Investment income	1,559	533	3,406	1,497	6,995
Rents and royalties	8,950	-	-	37,450	46,400
Donations	100	-	-	-	100
Other revenue	58,635	-	-	3,269	61,904
TOTAL REVENUES	2,660,509	599,996	472,778	47,995	3,781,278
EXPENDITURES:					
Legislative	26,894	-	-	-	26,894
Municipal court	78,617	-	-	-	78,617
Executive/administration	274,791	-	-	-	274,791
Community development	163,407	-	-	-	163,407
Financial administration	160,009	-	-	-	160,009
Police	1,219,776	-	-	2,347	1,222,123
Fire protection	523,595	-	-	-	523,595
Highways and streets	275,493	-	-	-	275,493
Civic center	-	-	-	126,637	126,637
Non-departmental	174,507	-	70,405	3,961	248,873
Debt service -principal	-	115,000	140,000	-	255,000
-interest	-	16,200	188,000	-	204,200
-fees	-	2,073	500	-	2,573
TOTAL EXPENDITURES	2,897,089	133,273	398,905	132,945	3,562,212
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(236,580)	466,723	73,873	(84,950)	219,066
OTHER FINANCING SOURCES (USES):					
Transfers in	581,877	-	-	53,481	635,358
Transfers out	(53,481)	(638,685)	-	-	(692,166)
TOTAL OTHER FINANCING SOURCES (USES)	528,396	(638,685)	-	53,481	(56,808)
NET CHANGE IN FUND BALANCES	291,816	(171,962)	73,873	(31,469)	162,258
FUND BALANCE, OCTOBER 1, 2012	341,078	271,940	421,621	141,538	1,176,177
FUND BALANCE, SEPTEMBER 30, 2013	\$ 632,894	\$ 99,978	\$ 495,494	\$ 110,069	\$ 1,338,435

(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, 2013**

Net change in fund balances - total governmental funds	\$ 162,258
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	109,666
The depreciation of capital assets used in governmental activities is not reported in the funds.	(376,533)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,055
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	255,000
Bond discounts are amortized in the SOA but not in the funds.	(1,048)
(Increase) decrease in accrued interest from beginning of period to end of period.	2,651
Increase (decrease) in court fines receivable.	3,791
(Increase) decrease in accrual for compensated absences.	<u>(8,698)</u>
Change in net position of governmental activities - statement of activities	<u>\$ 154,142</u>

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

CITY OF GILMER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 624,851	\$ 519,449	\$ 20,549	\$ 1,164,849
Investments	893,868	-	-	893,868
Accounts receivable, net	315,877	101,173	8,167	425,217
Due from other funds	45,479	146,890	-	192,369
Total current assets	<u>1,880,075</u>	<u>767,512</u>	<u>28,716</u>	<u>2,676,303</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	101,268	-	-	101,268
Capital assets:				
Land	4,266,667	230,484	28,013	4,525,164
Land improvements	3,558,647	-	1,553,244	5,111,891
Infrastructure	14,002,202	-	-	14,002,202
Buildings	162,453	-	815,817	978,270
Equipment and furniture	628,955	-	103,065	732,020
Less accumulated depreciation	(7,039,071)	-	(473,709)	(7,512,780)
Total noncurrent assets	<u>15,681,121</u>	<u>230,484</u>	<u>2,026,430</u>	<u>17,938,035</u>
TOTAL ASSETS	<u>17,561,196</u>	<u>997,996</u>	<u>2,055,146</u>	<u>20,614,338</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Loss on defeasance of debt	587,959	-	-	587,959
TOTAL DEFERRED OUTFLOWS	<u>587,959</u>	<u>-</u>	<u>-</u>	<u>587,959</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	31,775	49,059	806	81,640
Wages payable	15,212	552	-	15,764
Accrual for compensated absences	26,285	902	-	27,187
Accrued interest payable	82,329	-	-	82,329
Due to other funds	47,750	-	23,067	70,817
Customer deposits	101,268	-	250	101,518
Bonds, notes, and loans payable	625,000	-	-	625,000
Total current liabilities	<u>929,619</u>	<u>50,513</u>	<u>24,123</u>	<u>1,004,255</u>
Noncurrent liabilities:				
Premium on issuance of debt	280,575	-	-	280,575
Bonds, notes, and loans payable	8,970,000	-	-	8,970,000
Total noncurrent liabilities	<u>9,250,575</u>	<u>-</u>	<u>-</u>	<u>9,250,575</u>
TOTAL LIABILITIES	<u>10,180,194</u>	<u>50,513</u>	<u>24,123</u>	<u>10,254,830</u>
NET POSITION				
Net investment in capital assets	5,704,278	230,484	2,026,430	7,961,192
Restricted for debt service	107,149	-	-	107,149
Unrestricted	2,157,534	716,999	4,593	2,879,126
TOTAL NET POSITION	<u>\$ 7,968,961</u>	<u>\$ 947,483</u>	<u>\$ 2,031,023</u>	<u>\$ 10,947,467</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, 2013

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
OPERATING REVENUES:				
Charges for water services	\$ 1,251,512	\$ -	\$ -	\$ 1,251,512
Charges for sewerage services	732,105	-	-	732,105
Charges for sanitation services	-	729,506	-	729,506
Penalties	26,122	-	-	26,122
Rents and royalties	12,600	-	68,157	80,757
Franchise fees	-	93,970	-	93,970
Licenses and permits	-	2,470	-	2,470
Other revenue	107,832	14,016	-	121,848
TOTAL OPERATING REVENUES	2,130,171	839,962	68,157	3,038,290
OPERATING EXPENSES:				
Salaries and employee benefits	465,119	15,043	-	480,162
Contractual services	34,145	619,729	5,220	659,094
Utilities	134,238	-	9,241	143,479
Repairs and maintenance	101,240	-	3,330	104,570
Supplies and other expenses	160,888	-	3,849	164,737
Insurance	4,585	-	2,655	7,240
Bad debts	16,707	7,163	-	23,870
Depreciation	348,400	-	49,338	397,738
TOTAL OPERATING EXPENSES	1,265,322	641,935	73,633	1,980,890
OPERATING INCOME (LOSS)	864,849	198,027	(5,476)	1,057,400
NONOPERATING REVENUES (EXPENSES)				
Interest and investment revenue	11,831	1,380	74	13,285
Operating grants	-	-	12,620	12,620
Interest expense	(302,630)	-	-	(302,630)
Debt issuance costs and fees	(129,566)	-	-	(129,566)
TOTAL NONOPERATING REVENUES (EXPENSES)	(420,365)	1,380	12,694	(406,291)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	444,484	199,407	7,218	651,109
Transfers in	738,685	-	-	738,685
Transfers out	(577,084)	(104,793)	-	(681,877)
INCOME AFTER CONTRIBUTIONS AND TRANSFERS	606,085	94,614	7,218	707,917
CHANGE IN NET POSITION	606,085	94,614	7,218	707,917
NET POSITION - BEGINNING	7,523,932	852,869	2,023,805	10,400,606
PRIOR PERIOD ADJUSTMENT	(161,056)	-	-	(161,056)
NET POSITION - BEGINNING, AS RESTATED	7,362,876	852,869	2,023,805	10,239,550
NET POSITION - ENDING	\$ 7,968,961	\$ 947,483	\$ 2,031,023	\$ 10,947,467

(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, 2013**

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from user charges	\$ 1,977,436	\$ 726,706	\$ 68,157	\$ 2,772,299
Other operating revenue	120,432	107,986	-	228,418
Cash payments to employees for services	(461,927)	(14,716)	-	(476,643)
Cash payments for contracted services	(34,145)	(620,777)	(5,220)	(660,142)
Cash payments to suppliers	(155,233)	-	(4,426)	(159,659)
Cash payments for other operating expenses	(240,063)	-	(15,226)	(255,289)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,206,500	199,199	43,285	1,448,984
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers to other funds	(577,084)	(104,793)	-	(681,877)
Transfers from other funds	738,685	-	-	738,685
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	161,601	(104,793)	-	56,808
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(324,281)	-	(14,877)	(339,158)
Payments on bonds payable	(590,000)	-	-	(590,000)
Interest paid on bonds payable	(370,347)	-	-	(370,347)
Debt issuance costs paid	(96,899)	-	-	(96,899)
Proceeds from refunding bonds	4,250,000	-	-	4,250,000
Premium on issuance of refunding bonds	238,517	-	-	238,517
Purchase securities to refund debt	(4,389,372)	-	-	(4,389,372)
Capital contributions and grants	-	-	4,453	4,453
NET CASH USED BY FINANCING ACTIVITIES	(1,282,382)	-	(10,424)	(1,292,806)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	12,490	1,380	74	13,944
Interfund loans collected (funded)	(145,760)	7,900	(39,194)	(177,054)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(133,270)	9,280	(39,120)	(163,110)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(47,551)	103,686	(6,259)	49,876
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2012	672,402	415,762	26,809	1,114,973
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2013	\$ 624,851	\$ 519,448	\$ 20,550	\$ 1,164,849
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 864,849	\$ 198,027	\$ (5,476)	\$ 1,057,400
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	348,400	-	49,338	397,738
(Increase) decrease in accounts receivable	(15,596)	1,893	-	(13,703)
Increase (decrease) in accounts payable	5,655	(1,048)	(577)	4,030
Increase (decrease) in accrued wages	786	74	-	860
Increase (decrease) in accrual for compensated absences	2,406	253	-	2,659
Total adjustments	341,651	1,172	48,761	391,584
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,206,500	\$ 199,199	\$ 43,285	\$ 1,448,984

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

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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.

For the year ended September 30, 2013, the City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Additional information on the effect of this change can be found in section N of this note and also in Note 13.

A. FINANCIAL REPORTING ENTITY

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

COMPONENT UNIT

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

BLENDED COMPONENT UNITS

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net 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 government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

Sales tax associated with the current fiscal period 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, 2013**

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.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

J. 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 expenses in unassigned fund balance. At September 30, 2013, the City had achieved approximately 2.6 months of operating expenses 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 Assets (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.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 type of item that qualifies for reporting in this category, which is the unamortized loss on defeasance of debt.

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 type of 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.

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, 2012 upon which the 2013 fiscal-year levy was based, was \$260,276,853 and the tax levy was set at \$.636419 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, 2013, for the fiscal 2013 tax levy were 98.58 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2013, were \$277,112.

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, 2013 is \$138,769.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Land	\$ 6,330,697	\$ -	\$ -	\$ 6,330,697
Infrastructure	3,920,298	5,500	-	3,925,798
Buildings and Improvements	3,818,414	20,300	-	3,838,714
Machinery, Furniture and Equipment	2,165,420	83,866	-	2,249,286
Totals at Historic Cost	<u>16,234,829</u>	<u>109,666</u>	<u>-</u>	<u>16,344,495</u>
Less accumulated depreciation for:				
Infrastructure	(2,328,975)	(95,075)	-	(2,424,050)
Buildings and Improvements	(1,277,090)	(126,141)	-	(1,403,231)
Machinery, Furniture and Equipment	(1,237,907)	(155,317)	-	(1,393,224)
Total accumulated depreciation	<u>(4,843,972)</u>	<u>(376,533)</u>	<u>-</u>	<u>(5,220,505)</u>
Governmental activities capital assets, net	<u>\$ 11,390,857</u>	<u>\$ (266,867)</u>	<u>\$ -</u>	<u>\$ 11,123,990</u>
Business-type activities:				
Land	\$ 4,525,164	\$ -	\$ -	\$ 4,525,164
Construction in progress	5,250	-	(5,250)	-
Total capital assets not being depreciated	<u>4,530,414</u>	<u>-</u>	<u>(5,250)</u>	<u>4,525,164</u>
Land Improvements	5,097,014	14,878	-	5,111,892
Infrastructure	13,694,238	307,965	-	14,002,203
Buildings and Improvements	978,270	-	-	978,270
Machinery, Furniture and Equipment	710,453	21,566	-	732,019
Total capital assets being depreciated	<u>20,479,975</u>	<u>344,409</u>	<u>-</u>	<u>20,824,384</u>
Less accumulated depreciation for:				
Land Improvements	(1,213,308)	(81,442)	-	(1,294,750)
Infrastructure	(5,224,227)	(190,584)	-	(5,414,811)
Buildings and Improvements	(190,986)	(19,626)	-	(210,612)
Machinery, Furniture and Equipment	(486,522)	(106,086)	-	(592,608)
Total accumulated depreciation	<u>(7,115,043)</u>	<u>(397,738)</u>	<u>-</u>	<u>(7,512,781)</u>
Total capital assets being depreciated, net	<u>13,364,932</u>	<u>(53,329)</u>	<u>-</u>	<u>13,311,603</u>
Business-type activities capital assets, net	<u>\$ 17,895,346</u>	<u>\$ (53,329)</u>	<u>\$ (5,250)</u>	<u>\$ 17,836,767</u>

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

Governmental activities:	
Legislative	\$ 2,425
Municipal Court	6,411
Executive/Administration	24,480
Community Development	14,619
Financial Administration	14,345
Police	107,616
Fire Protection	35,601
Highways and Streets	115,987
Civic Center	55,049
Total depreciation expense - governmental activities	<u>376,533</u>
Business-type activities:	
Water and sewer	348,400
Airport	49,338
Total depreciation expense - business-type activities	<u>397,738</u>

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2013, 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	\$ 360,000	\$ -	\$ 115,000	\$ 245,000	\$ 120,000
Accrual for compensated absences	93,262	7,789		101,051	-
Total Obligations of the City of Gilmer	453,262	7,789	115,000	346,051	120,000
Obligations of Economic Development Corp:					
Sales tax revenue bonds	4,275,000	-	140,000	4,135,000	140,000
Total Governmental Activities	<u>\$ 4,728,262</u>	<u>\$ 7,789</u>	<u>\$ 255,000</u>	<u>\$ 4,481,051</u>	<u>\$ 260,000</u>
Business-type Activities:					
Refunding bonds	\$ 4,655,000	\$ 4,250,000	\$ 185,000	\$ 8,720,000	\$ 425,000
Tax and revenue certificates of obligation	5,230,000	-	4,355,000	875,000	250,000
Total Business-Type Activities	<u>\$ 9,885,000</u>	<u>\$ 4,250,000</u>	<u>\$ 4,540,000</u>	<u>\$ 9,595,000</u>	<u>\$ 675,000</u>
Total Long-term Debt	<u>\$ 14,613,262</u>	<u>\$ 4,257,789</u>	<u>\$ 4,795,000</u>	<u>\$ 14,076,051</u>	<u>\$ 935,000</u>

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

	Balance as of September 30, 2013
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	\$ 245,000
Total General Obligation Bonds	<u>245,000</u>
<u>Sales Tax and Revenue Bonds</u> (an obligation of Gilmer Economic Development Corporation, a component unit of the City of Gilmer)	
2011 Sales Tax and Revenue Bonds; principal plus interest varying from 4.0% to 5.0% due semi-annually through July 15, 2033.	4,135,000
Total Sales Tax and Revenue Bonds	<u>4,135,000</u>
Total Governmental Activities	<u>\$ 4,380,000</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.	\$ 4,505,000
2013 General Obligation Refunding Bond Series 2013; principal plus interest varying from 2% to 3% due semi-annually through May 15, 2027.	4,215,000
Total Refunding Bonds	<u>8,720,000</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.	510,000
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.	365,000
Total Certificates of Obligation	<u>875,000</u>
Total Business-Type Activities	<u>\$ 9,595,000</u>

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt subsequent to September 30, 2013 are as follows:

Governmental activities:	Year Ending	Principal	Interest	Total
	September 30			
	2014	\$ 260,000	\$ 196,225	\$ 456,225
	2015	270,000	187,325	457,325
	2016	150,000	178,075	328,075
	2017	155,000	173,575	328,575
	2018	160,000	167,375	327,375
	2019-2023	890,000	731,989	1,621,989
	2024-2028	1,100,000	515,050	1,615,050
	2029-2033	1,395,000	215,500	1,610,500
		<u>\$ 4,380,000</u>	<u>\$ 2,365,114</u>	<u>\$ 6,745,114</u>

Business-type activities:	Year Ending	Principal	Interest	Total
	September 30			
	2014	\$ 625,000	\$ 320,188	\$ 945,188
	2015	655,000	292,313	947,313
	2016	495,000	301,363	796,363
	2017	500,000	252,163	752,163
	2018	505,000	241,338	746,338
	2019-2023	2,565,000	1,017,190	3,582,190
	2024-2028	2,580,000	517,802	3,097,802
	2029-2033	1,365,000	241,377	1,606,377
	2034	305,000	12,963	317,963
		<u>\$ 9,595,000</u>	<u>\$ 3,196,697</u>	<u>\$ 12,791,697</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, 2013 were as follows:

Due From	Due To				Totals
	Debt Service	Economic Development	Sanitation Fund	Water & Sewer	
General Fund	\$ -	\$ 33,840	\$ 66,890	\$ -	\$ 100,730
Economic Development	-	-	-	45,479	45,479
Other Governmental Funds	-	-	80,000	-	80,000
Water & Sewer Fund	47,750	-	-	-	47,750
Airport Fund	23,067	-	-	-	23,067
	<u>\$ 70,817</u>	<u>\$ 33,840</u>	<u>\$ 146,890</u>	<u>\$ 45,479</u>	<u>\$ 297,026</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 the annual administrative fee not yet transferred.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 6 - INTERFUND BALANCES AND TRANSFERS (CONTINUED)

Interfund transfers for the year ended September 30, 2013 were as follows:

Transfer From	Transfer To			Totals	
	General Fund	Other Governmental	Water & Sewer		
General Fund	\$ -	\$ 53,481	\$ -	\$ 53,481	To fund current operations
Debt Service Fund	-	-	638,685	638,685	To fund debt service requirements
Water & Sewer Fund	577,084	-	-	577,084	To fund current operations
Sanitation Fund	4,793	-	100,000	104,793	To fund current operations
	<u>\$ 581,877</u>	<u>\$ 53,481</u>	<u>\$ 738,685</u>	<u>\$ 1,374,043</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 2012	Plan Year 2013
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)
2011	225,800	225,800	100%	-
2012	245,064	245,064	100%	-
2013	251,113	251,113	100%	-

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows.

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.1 years; closed period	26.1 years; closed period	25.1 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, 2012, 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
12/31/2012	\$ 5,403,548	\$ 6,774,685	79.8%	\$ 1,371,137	\$ 1,747,724	78.5%

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, 2013**

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 2013, 2012 and 2011 were \$4,128, \$ 4,080, and \$4,762, 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, 2012, there were 188 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, 2012, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,750
Terminated participants entitled to benefits but not yet receiving them	2,252
Active participants (vested and nonvested)	4,446
	9,448

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, 2012, total contributions (dues and prior service) of \$3,517,455 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, 2012 and 2013. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2010 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2012, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2013 (\$528,538 to pay for part of the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years for up to 50 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$530,000 each year to pay for part of the System's administrative expenses.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 8 - RESTRICTED FUND BALANCE

As of September 30, 2013, fund balances restricted for specific purposes were as follows:

General Fund		
	Hotel-Motel tax	\$ 18,995
	Court restricted funds	17,484
	LEOSE	4,026
	Wal-mart grant	1,438
	Archeological grant	4,538
		\$ 46,481
Other Governmental Funds		
	Police Dept Seizure Fund	\$ 7,780
	Police Officer Fund	409
	HOME Texas Fund	9,454
	Civic Center	767
	USDA Loan Program	91,659
		\$ 110,069

NOTE 9 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2013, the carrying amounts of the City's bank accounts were \$3,612,836 and the balances on deposit were \$3,685,772.

Investments:

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

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

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

The City's investments at September 30, 2013, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Various	\$ 1,330,924
Total Investments		\$ 1,330,924

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.

**CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 \$194,254 at September 30, 2013.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 1, 2014, the date on which the financial statements were available to be issued.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

Beginning net position has been reduced by \$342,574 to reflect a change in accounting policy. The City implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended September 30, 2013. As a result, debt issuance costs previously capitalized and amortized have been removed from the statement of net position as follows:

Governmental activities statement of net position	\$ 181,518
Business-type activities statement of net position	161,056
	<u>\$ 342,574</u>

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF GILMER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,087,000	\$ 1,087,000	\$ 1,046,383	\$ (40,617)
Penalty and interest	22,000	22,000	19,160	(2,840)
Sales tax	850,000	850,000	938,744	88,744
Franchise taxes	206,000	206,000	231,683	25,683
Fines and forfeitures	246,100	246,100	208,254	(37,846)
Licenses and permits	27,276	27,276	28,525	1,249
Other taxes	60,000	62,750	49,427	(13,323)
Investment income	1,000	1,000	1,559	559
Rents and royalties	10,000	10,000	8,950	(1,050)
Proceeds of asset sales	2,000	2,000	-	(2,000)
Intergovernmental revenues and grants	63,000	63,000	69,089	6,089
Donations	-	-	100	100
Miscellaneous	23,104	48,511	58,635	10,124
TOTAL REVENUES	<u>2,597,480</u>	<u>2,625,637</u>	<u>2,660,509</u>	<u>34,872</u>
EXPENDITURES:				
Legislative	25,394	25,394	26,894	(1,500)
Municipal court	81,433	81,433	78,617	2,816
Executive/administration	284,033	284,033	274,791	9,242
Community development	181,109	181,109	163,407	17,702
Financial administration	159,856	159,856	160,009	(153)
Police	1,258,098	1,260,848	1,219,776	41,072
Fire protection	540,956	540,956	523,595	17,361
Highways and streets	276,790	276,790	275,493	1,297
Non-departmental	379,541	380,763	174,507	206,256
TOTAL EXPENDITURES	<u>3,187,210</u>	<u>3,191,182</u>	<u>2,897,089</u>	<u>294,093</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(589,730)	(565,545)	(236,580)	328,965
OTHER FINANCING SOURCES (USES):				
Transfers in	581,877	542,239	581,877	39,638
Transfers out	-	(12,000)	(53,481)	(41,481)
TOTAL OTHER FINANCING SOURCES (USES)	<u>581,877</u>	<u>530,239</u>	<u>528,396</u>	<u>(1,843)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(7,853)	(35,306)	291,816	327,122
FUND BALANCE, OCTOBER 1, 2012	<u>341,078</u>	<u>341,078</u>	<u>341,078</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2013	<u>\$ 333,225</u>	<u>\$ 305,772</u>	<u>\$ 632,894</u>	<u>\$ 327,122</u>

**CITY OF GILMER, TEXAS
ECONOMIC DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Sales tax	\$ 425,000	\$ 425,000	\$ 469,372	\$ 44,372
Investment income	2,500	2,500	3,406	906
TOTAL REVENUES	<u>427,500</u>	<u>427,500</u>	<u>472,778</u>	<u>45,278</u>
EXPENDITURES:				
Non-departmental	63,750	63,750	70,405	(6,655)
Debt service - principal	140,000	140,000	140,000	-
Debt service - interest and other charges	188,100	188,100	188,500	(400)
TOTAL EXPENDITURES	<u>391,850</u>	<u>391,850</u>	<u>398,905</u>	<u>(7,055)</u>
EXCESS OF REVENUES OVER EXPENDITURES	35,650	35,650	73,873	38,223
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	35,650	35,650	73,873	38,223
FUND BALANCE, OCTOBER 1, 2012	<u>421,621</u>	<u>421,621</u>	<u>421,621</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2013	<u>\$ 457,271</u>	<u>\$ 457,271</u>	<u>\$ 495,494</u>	<u>\$ 38,223</u>

CITY OF GILMER, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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
12/31/2010	\$ 4,489,791	\$ 6,061,024	74.1%	\$ 1,571,233	\$ 1,744,193	90.1%
12/31/2011	4,963,570	6,449,233	77.0%	1,485,663	1,776,884	83.6%
12/31/2012	5,403,548	6,774,685	79.8%	1,371,137	1,747,724	78.5%

CITY OF GILMER, TEXAS

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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, 2013, 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 April 1, 2014.

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
April 1, 2014

**CITY OF GILMER, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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, 2013**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

B. Financial Statement Findings

None

**CITY OF GILMER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

None required.

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