

CITY OF GILMER, TEXAS
FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2011

CITY COUNCIL

R.D. CROSS, MAYOR

WILLIAM HORNSBY, MAYOR PRO TEM

BRIAN WILLIAMS

DAVID SOWELL

TEATHEL HOLLIS

MICHAEL CHEVALIER

CITY MANAGER

JEFF ELLINGTON

CITY SECRETARY

KATHY HOOVER

BUSINESS MANAGER

GARY SMITH

CITY OF GILMER, TEXAS
 SEPTEMBER 30, 2011
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Gilmer, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2012, on our consideration of the City of Gilmer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 3 through 8 and 34 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Karen A. Jacks & Associates, P.C.
Karen A. Jacks & Associates, P.C.

Longview, Texas
February 21, 2012

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City of Gilmer, Texas

Management's Discussion and Analysis

For Year Ended September 30, 2011

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, 2011. 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

- The City of Gilmer's assets at September 30, 2011 totaled \$33,581,620 compared to its liabilities of \$16,011,499; the excess of assets over liabilities (net assets) was \$17,570,121, an increase of \$993,144 or 6% compared to the net asset position at September 30, 2010.
- During the year ended September 30, 2011, the City issued Waterworks and Sewer System Revenue Refunding Bonds, Series 2010, in the amount of \$5,200,000. The bonds were issued to refund the City's outstanding \$5,105,000 Water and Sewer Revenue Bonds, Series 1998. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Water and Sewer fund statement of net assets. The transaction resulted in a reduction of \$794,720 in future debt payments, having an estimated net present value of \$524,484.
- During the year ended September 30, 2011, the Gilmer Economic Development Corporation (a component unit of the City of Gilmer, Texas) issued Sales Tax Revenue Bonds, Series 2011, in the amount of \$4,545,000. The bonds were issued for the purpose of purchasing the Texas Water Development Board's ownership in Lake Gilmer. The bonds are secured by a lien on and a pledge of the Gilmer Economic Development Corporation's receipts from a one-half of one percent sales and use tax collected within the boundaries of the City of Gilmer, Texas for the benefit of the Corporation. As a result of this transaction, the City of Gilmer conveyed a 42.77% interest in Lake Gilmer to the Gilmer Economic Development Corporation in exchange for the Corporation's payment in full of the City of Gilmer's obligation to the Texas Water Development Board in the amount of \$4,800,000. The Gilmer Economic Development Corporation Sales Tax Revenue Bonds, Series 2011, do not constitute obligations of the City of Gilmer, but are reported herein because they are an obligation of its component unit, Gilmer Economic Development Corporation.
- During the year ended September 30, 2011, the City of Gilmer retired the debt for the Highway 271 building, (City of Gilmer Annex Building), in the amount of \$55,908; providing a savings of \$8,376 in interest.
- During the year ended September 30, 2011, the City of Gilmer retired the debt for the City of Gilmer's airport hangers, in the amount of \$98,319; providing a savings of \$3,949 in interest.
- Total General Fund revenues were \$2,684,321 with expenditures of \$2,925,390. There were also net transfers into the General Fund from Proprietary funds of \$168,701, which resulted in a reduction of fund balance of \$72,368. At September 30, 2011 the General Fund had a fund balance of \$192,764.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Gilmer, net assets exceeded liabilities by \$17,570,121, as of September 30, 2011, an increase of \$993,144 from the previous year.

The largest portion of the City's net assets, 78%, 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	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$2,127,002	\$1,595,958	\$2,878,180	\$2,991,906	\$5,005,182	\$4,587,864
Capital assets	6,784,038	11,562,221	22,243,956	17,431,535	29,027,994	28,993,756
Total assets	8,911,040	13,158,179	25,122,136	20,423,441	34,033,176	33,581,620
Current liabilities	476,495	592,355	1,219,990	899,144	1,696,485	1,491,499
Noncurrent liabilities, due in more than one year	470,000	4,635,000	15,289,714	9,885,000	15,759,714	14,520,000
Total liabilities	946,495	5,227,355	16,509,704	10,784,144	17,456,199	16,011,499
Net Assets:						
Invested in capital assets, net of related debt	6,209,038	6,682,221	6,187,244	7,011,535	12,396,282	13,693,756
Restricted	1,479,126	788,636	281,069	131,046	1,760,195	919,682
Unrestricted	276,381	459,967	2,144,119	2,496,716	2,420,500	2,956,683
Total Net Assets	7,964,545	7,930,824	8,612,432	9,639,297	16,576,977	17,570,121

Analysis of the City's Operations- Overall the City had an increase in net assets of \$993,144. Governmental activities decreased the net assets by \$33,721 and net assets from business-type activities increased by \$1,026,865.

The following table provides a summary of the City's operations for the year ended September 30, 2011

CITY OF GILMER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
REVENUES:						
PROGRAM REVENUES:						
Charges for services	\$370,874	\$306,720	\$2,973,038	\$3,093,312	\$3,343,912	\$3,400,032
Operating grants & contributions	447,839	239,066	4,776	4,056	452,615	243,122
Capital grants & contributions	--	--	--	90,380	--	90,380
GENERAL REVENUES:						
Property taxes, levied for general purposes	1,075,105	1,073,652	--	--	1,075,105	1,073,652
Property taxes, levied for debt services	580,739	572,048	--	--	580,739	572,048
Sales taxes	833,057	878,982	--	--	833,057	878,982
Sales tax for Economic Development	415,529	439,491	--	--	415,529	439,491
Franchise taxes	226,266	218,720	--	--	226,266	218,720
Other taxes	70,874	58,680	--	--	70,874	58,680
Penalty and interest	21,426	22,115	--	--	21,426	22,115
Miscellaneous revenue	190,014	154,901	--	--	190,014	154,901
Investment earnings	15,600	12,339	24,377	17,646	39,977	29,985
Rents and royalties	16,471	11,078	--	--	16,471	11,078
Sale of equipment	19,444	3,339	--	-24,725	19,444	-21,386
Transfers in (out)	-540,752	-498,678	540,753	498,678	1	0
TOTAL REVENUES	3,742,486	3,492,453	3,542,944	3,679,347	7,285,430	7,171,800
EXPENSES:						
Legislative	17,107	16,670	--	--	17,107	16,670
Municipal court	59,038	72,901	--	--	59,038	72,901
Executive/administration	198,258	272,186	--	--	198,258	272,186
Community development	135,569	110,525	--	--	135,569	110,525
Financial administration	123,012	150,453	--	--	123,012	150,453
Police	907,898	1,169,471	--	--	907,898	1,169,471
Fire protection	354,651	503,572	--	--	354,651	503,572
Highways and Streets	876,823	701,379	--	--	876,823	701,379
Civic center	129,246	173,421	--	--	129,246	173,421
Non departmental	994,693	246,086	--	--	994,693	246,086
Interest & fiscal agent fees	30,600	109,510	--	--	30,600	109,510
Water & sewer	--	--	2,072,692	1,962,609	2,072,692	1,962,609
Sanitation	--	--	628,866	601,115	628,866	601,115
Airport	--	--	69,313	88,758	69,313	88,758
TOTAL EXPENSES	3,826,895	3,526,174	2,770,871	2,652,482	6,597,766	6,178,656
CHANGES IN NET ASSETS	-84,409	-33,721	772,073	1,026,865	687,664	993,144
NET ASSETS – BEGINNING	8,048,954	7,964,545	7,840,359	8,612,432	15,889,313	16,576,977
NET ASSETS – ENDING	\$7,964,545	\$7,930,824	\$8,612,432	\$9,639,297	\$16,576,977	\$17,570,121

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 \$952,969 which is down by \$688,180 from last fiscal year's balance of \$1,641,149. Of the current balance, \$164,333 constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for debt service or other purposes. The major change occurred in the Gilmer Economic Development Fund with a decrease in fund balance of \$604,645 which resulted from the purchase of an interest in Lake Gilmer along with the issuance of the new Sales Tax Revenue Bonds, Series 2011.

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- \$2,008,078 and Sanitation- \$594,384.

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 \$125,523 while total expenditures were under budget by \$77,241.

CAPITAL ASSETS

The City of Gilmer's investment in capital assets for its governmental and business-type activities as of September 30, 2011 amounts to \$28,993,756 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery & equipment and construction in progress. The increase of land and the decrease of improvements, other than buildings, was from the refinancing of the Gilmer Economic Developments' refinancing of the Sales Tax Revenue Bonds, Series 2011, which created the Lake Gilmer land asset to be added to the City of Gilmer's assets.

	Capital Assets at Year-end					
	Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Land	\$458,194	\$6,330,697	\$4,503,164	\$4,525,164	\$4,961,358	\$10,855,861
Infrastructure	1,781,473	1,686,398	6,808,047	8,000,623	8,589,520	9,687,021
Buildings	3,740,510	2,618,201	827,547	807,235	4,568,057	3,425,436
Improvements, other than bldgs	--	--	8,893,659	3,963,173	8,893,659	3,963,173
Machinery & Equip	803,861	926,925	149,716	80,226	953,577	1,007,151
Construction in Progress	--	--	--	55,114	--	55,114
Assets Under Capital Lease	--	--	1,061,823	--	1,061,823	--
Total	\$6,784,038	\$11,562,221	\$22,243,956	\$17,431,535	\$29,027,994	\$28,993,756

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Gilmer had total long-term debt of \$15,300,000. Of this amount, \$470,000 comprises bonded debt backed by the full faith and credit of the government, while \$4,910,000 represents bonds secured solely by water and sewer revenues and \$5,510,000 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 \$4,410,000 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 \$16,631,712 to \$10,890,000, a decrease of \$5,741,712, or approx. 35%.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
General Obligation Bonds	\$575,000	\$470,000	--	--	\$575,000	\$470,000
Notes Payable	--	--	\$225,138	--	\$225,138	--
Revenue Bonds Payable	--	--	9,945,000	4,910,000	\$9,945,000	\$4,910,000
Tax & Revenue CO	--	--	5,785,000	5,510,000	\$5,785,000	\$5,510,000
Capital Lease Obligation	--	--	101,574	--	\$101,574	--
Sub-total	\$575,000	\$470,000	\$16,056,712	\$10,420,000	\$16,631,712	\$10,890,000
Sales & Tax Revenue Bonds ****	--	--	--	4,410,000	--	\$4,410,000
Total	\$575,000	\$470,000	\$16,056,712	\$14,830,000	\$16,631,712	\$15,300,000

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2011-2012 budget and rates. Sales tax receipts, which had been increasing from 2006 to 2009 decreased almost 4% for fiscal year 2009/2010, but showed leveling in the first three quarters of the 2010-2011 fiscal year. The last quarter of the 2010-2011 fiscal year continued to be level with the previous year and with that in mind, sales tax revenue was budgeted conservatively for the 2011-2012 fiscal year. The City's property tax rate for 2010-2011 was \$ 0.629 per \$100 valuation. The property tax rate for 2011-2012 is set at \$0.6314/\$100. Property values increased .14% for the 2011-2012 budget year over 2010-2011.

The city has made a concerted effort to make appropriations for those items truly necessary.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF GILMER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 574,911	\$ 1,773,318	\$ 2,348,229
Investments	329,859	548,772	878,631
Receivables (net of allowance for uncollectibles):			
Taxes	276,220	-	276,220
Accounts	52,917	451,529	504,446
Other	68,607	3,497	72,104
Internal balances	79,837	(79,837)	-
Debt issuance costs, net of amortization	190,362	353,541	543,903
Discount or premium on bond issuance	23,245	(58,914)	(35,669)
Capital assets (net of accumulated depreciation):			
Land	6,330,697	4,525,164	10,855,861
Improvements	1,686,398	11,963,796	13,650,194
Buildings and improvements	2,618,201	807,235	3,425,436
Furniture and equipment	926,925	80,226	1,007,151
Construction in progress	-	55,114	55,114
Total assets	<u>13,158,179</u>	<u>20,423,441</u>	<u>33,581,620</u>
LIABILITIES			
Accounts payable	126,030	99,828	225,858
Accrued wages	59,866	13,964	73,830
Accrual for compensated absences	101,351	21,062	122,413
Accrued interest payable	55,608	140,093	195,701
Customer deposits	-	89,197	89,197
Unearned revenue	4,500	-	4,500
Noncurrent liabilities:			
Due within one year	245,000	535,000	780,000
Due in more than one year	4,635,000	9,885,000	14,520,000
Total liabilities	<u>5,227,355</u>	<u>10,784,144</u>	<u>16,011,499</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,682,221	7,011,535	13,693,756
Restricted for debt service	632,184	131,046	763,230
Restricted for other purposes	156,452	-	156,452
Unrestricted	459,967	2,496,716	2,956,683
Total net assets	<u>\$ 7,930,824</u>	<u>\$ 9,639,297</u>	<u>\$ 17,570,121</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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Legislative	\$ 16,670	\$ -	\$ -	\$ -	\$ (16,670)		\$ (16,670)
Municipal court	72,901	277,892	-	-	204,991		204,991
Executive/administration	272,186	-	-	-	(272,186)		(272,186)
Community development	110,525	-	-	-	(110,525)		(110,525)
Financial administration	150,453	-	-	-	(150,453)		(150,453)
Police	1,169,471	-	-	-	(1,169,471)		(1,169,471)
Fire protection	503,572	-	-	-	(503,572)		(503,572)
Highways and streets	701,379	-	239,066	-	(462,313)		(462,313)
Civic center	173,421	28,828	-	-	(144,593)		(144,593)
Non-departmental	246,086	-	-	-	(246,086)		(246,086)
Interest and fiscal agent fees	109,510	-	-	-	(109,510)		(109,510)
Total governmental activities	<u>3,526,174</u>	<u>306,720</u>	<u>239,066</u>	<u>-</u>	<u>(2,980,388)</u>		<u>(2,980,388)</u>
Business-type activities:							
Water and sewer	1,962,609	2,234,449	-	90,380		\$ 362,220	362,220
Sanitation	601,115	791,190	-	-		190,075	190,075
Airport	88,758	67,673	4,056	-		(17,029)	(17,029)
Total business-type activities	<u>2,652,482</u>	<u>3,093,312</u>	<u>4,056</u>	<u>90,380</u>		<u>535,266</u>	<u>535,266</u>
Total primary government	<u>\$ 6,178,656</u>	<u>\$ 3,400,032</u>	<u>\$ 243,122</u>	<u>\$ 90,380</u>	<u>\$ (2,980,388)</u>	<u>\$ 535,266</u>	<u>\$ (2,445,122)</u>
General revenues							
Property taxes, levied for general purposes					1,073,652	-	1,073,652
Property taxes, levied for debt service					572,048	-	572,048
Sales taxes					878,982	-	878,982
Sales taxes for Economic Development					439,491	-	439,491
Franchise taxes					218,720	-	218,720
Other taxes					58,680	-	58,680
Penalty and interest					22,115	-	22,115
Investment earnings					12,339	17,646	29,985
Rents and royalties					11,078	-	11,078
Miscellaneous					154,901	-	154,901
Sale of assets					3,339	(24,725)	(21,386)
Transfers in (out)					(498,678)	498,678	-
Total general revenues and transfers					<u>2,946,667</u>	<u>491,599</u>	<u>3,438,266</u>
Change in net assets					(33,721)	1,026,865	993,144
Net assets - beginning					<u>7,964,545</u>	<u>8,612,432</u>	<u>16,576,977</u>
Net assets - ending					<u>\$ 7,930,824</u>	<u>\$ 9,639,297</u>	<u>\$ 17,570,121</u>

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

CITY OF GILMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and cash equivalents	\$ 405,896	\$ 1,193	\$ 70,593	\$ 97,229	\$ 574,911
Investments	-	-	329,859	-	329,859
Receivables:					
Taxes	276,220	-	-	-	276,220
Due from other funds	2,000	270,817	31,912	-	304,729
Notes receivable	-	-	-	39,148	39,148
Other receivable	25,649	-	-	3,810	29,459
TOTAL ASSETS	<u>\$ 709,765</u>	<u>\$ 272,010</u>	<u>\$ 432,364</u>	<u>\$ 140,187</u>	<u>\$ 1,554,326</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 115,749	\$ -	\$ -	\$ 10,281	\$ 126,030
Due to other funds	152,702	2,000	70,190	-	224,892
Unearned revenue	184,983	-	-	-	184,983
Accrued wages	58,527	-	-	1,339	59,866
Accrual for compensated absences	5,040	-	-	546	5,586
TOTAL LIABILITIES	<u>517,001</u>	<u>2,000</u>	<u>70,190</u>	<u>12,166</u>	<u>601,357</u>
FUND BALANCE					
Restricted for debt service	-	270,010	362,174	-	632,184
Restricted for other purposes	28,431	-	-	128,021	156,452
Fund balance - unassigned	164,333	-	-	-	164,333
TOTAL FUND BALANCE	<u>192,764</u>	<u>270,010</u>	<u>362,174</u>	<u>128,021</u>	<u>952,969</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 709,765</u>	<u>\$ 272,010</u>	<u>\$ 432,364</u>	<u>\$ 140,187</u>	<u>\$ 1,554,326</u>

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

CITY OF GILMER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total fund balances - governmental funds balance sheet	\$ 952,969
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	11,562,221
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	180,483
Liabilities for bond principal which are not due in the current period are not reported in the funds.	(4,880,000)
Unamortized premiums and discounts on issuance of bonds are not reported in the funds	23,245
Unamortized debt issuance costs are not reported in the funds.	190,362
Liabilities for accrued interest which are not due in the current period are not reported in the funds.	(55,608)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(95,765)
Court fines receivable unavailable to pay for current period expenditures are not reported in the funds.	52,917
	52,917
Net assets of governmental activities - statement of net assets	\$ 7,930,824

(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, 2011

	General Fund	Debt Service Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,065,688	\$ 572,048	\$ -	\$ -	\$ 1,637,736
Penalty and interest	22,115	-	-	-	22,115
Sales tax	878,982	-	-	-	878,982
Sales tax for economic development	-	-	439,491	-	439,491
Franchise taxes	218,720	-	-	-	218,720
Other taxes	58,680	-	-	-	58,680
Fines and forfeitures	275,278	-	-	-	275,278
Licenses and permits	31,078	-	-	-	31,078
Intergovernmental revenue and grants	70,992	-	-	239,066	310,058
Investment income	2,394	848	7,433	1,664	12,339
Rents and royalties	11,078	-	-	28,828	39,906
Proceeds of asset sales	3,339	-	-	-	3,339
Donations	1,185	-	-	-	1,185
Other revenue	44,792	-	-	6,854	51,646
TOTAL REVENUES	2,684,321	572,896	446,924	276,412	3,980,553
EXPENDITURES:					
Legislative	15,842	-	-	-	15,842
Municipal court	69,672	-	-	-	69,672
Executive/administration	253,581	-	-	-	253,581
Community development	106,224	-	-	-	106,224
Financial administration	141,462	-	-	-	141,462
Police	1,169,816	-	-	138	1,169,954
Fire protection	665,384	-	-	-	665,384
Highways and streets	290,959	-	-	289,066	580,025
Civic center	20,900	-	-	117,311	138,211
Non-departmental	191,550	62	4,865,924	-	5,057,536
Debt service -principal	-	105,000	135,000	-	240,000
-interest	-	27,379	47,849	-	75,228
-fees	-	-	1,044	-	1,044
Debt issuance costs	-	-	194,351	-	194,351
TOTAL EXPENDITURES	2,925,390	132,441	5,244,168	406,515	8,708,514
EXCESS OF REVENUES OVER EXPENDITURES	(241,069)	440,455	(4,797,244)	(130,103)	(4,727,961)
OTHER FINANCING SOURCES (USES):					
Bonds issued	-	-	4,545,000	-	4,545,000
Discount on bonds issued	-	-	(23,732)	-	(23,732)
Accrued interest on bonds issued	-	-	17,191	-	17,191
Transfers in	267,914	96,000	-	143,131	507,045
Transfers out	(99,213)	(560,575)	(345,860)	(75)	(1,005,723)
TOTAL OTHER FINANCING SOURCES (USES)	168,701	(464,575)	4,192,599	143,056	4,039,781
NET CHANGE IN FUND BALANCES	(72,368)	(24,120)	(604,645)	12,953	(688,180)
FUND BALANCE, OCTOBER 1, 2010	265,132	294,130	966,819	115,068	1,641,149
FUND BALANCE, SEPTEMBER 30, 2011	\$ 192,764	\$ 270,010	\$ 362,174	\$ 128,021	\$ 952,969

(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, 2011

Net change in fund balances - total governmental funds	\$ (688,180)
<p>Amounts reported for governmental activities in the statement of activities ("SOA") are different because:</p>	
Capital outlays are not reported as expenses in the SOA.	5,101,667
The depreciation of capital assets used in governmental activities is not reported in the funds.	(323,484)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,964
Proceeds of bonds do not provide revenue in the SOA.	(4,545,000)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	240,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	213,607
(Increase) decrease in accrued interest from beginning of period to end of period.	(45,953)
Increase (decrease) in court fines receivable.	2,614
(Increase) decrease in accrual for compensated absences.	<u>3,044</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (33,721)</u>

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

CITY OF GILMER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 1,246,160	\$ 419,387	\$ 18,824	\$ 1,684,371
Investments	548,772	-	-	548,772
Accounts receivable, net	349,139	102,390	3,497	455,026
Capitalized debt issuance costs	353,541	-	-	353,541
Premium on issuance costs	(58,914)	-	-	(58,914)
Due from other funds	174,026	120,790	-	294,816
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	88,947	-	-	88,947
Capital assets:				
Land	4,266,667	230,484	28,013	4,525,164
Land improvements	3,558,647	-	1,538,367	5,097,014
Infrastructure	13,093,958	-	-	13,093,958
Construction in progress	55,114	-	-	55,114
Buildings	162,453	-	815,817	978,270
Equipment and furniture	380,277	-	103,065	483,342
Less accumulated depreciation	(6,424,319)	-	(377,008)	(6,801,327)
TOTAL ASSETS	17,794,468	873,051	2,130,575	20,798,094
LIABILITIES:				
Current liabilities:				
Accounts payable	51,509	47,405	914	99,828
Wages payable	13,536	428	-	13,964
Accrual for compensated absences	20,712	350	-	21,062
Accrued interest payable	140,093	-	-	140,093
Due to other funds	247,750	-	126,903	374,653
Customer deposits	88,947	-	250	89,197
Bonds, notes, and loans payable	535,000	-	-	535,000
Noncurrent liabilities:				
Bonds, notes, and loans payable	9,885,000	-	-	9,885,000
TOTAL LIABILITIES	10,982,547	48,183	128,067	11,158,797
NET ASSETS				
Invested in capital assets, net of related debt	4,672,797	230,484	2,108,254	7,011,535
Restricted for debt service	131,046	-	-	131,046
Unrestricted	2,008,078	594,384	(105,746)	2,496,716
TOTAL NET ASSETS	\$ 6,811,921	\$ 824,868	\$ 2,002,508	\$ 9,639,297

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

CITY OF GILMER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total
OPERATING REVENUES:				
Charges for water services	\$ 1,415,069	\$ -	\$ -	\$ 1,415,069
Charges for sewerage services	699,508	-	-	699,508
Charges for sanitation services	-	683,359	-	683,359
Penalties	28,827	-	-	28,827
Rents and royalties	12,600	-	67,617	80,217
Franchise fees	-	89,787	-	89,787
Licenses and permits	-	2,607	-	2,607
Other revenue	78,445	15,437	56	93,938
TOTAL OPERATING REVENUES	2,234,449	791,190	67,673	3,093,312
OPERATING EXPENSES:				
Salaries and employee benefits	411,784	13,881	-	425,665
Contractual services	37,035	587,234	3,115	627,384
Utilities	120,079	-	7,506	127,585
Repairs and maintenance	165,845	-	7,670	173,515
Supplies and other expenses	159,739	-	3,152	162,891
Insurance	4,461	-	3,650	8,111
Depreciation	289,585	-	57,203	346,788
TOTAL OPERATING EXPENSES	1,188,528	601,115	82,296	1,871,939
OPERATING INCOME (LOSS)	1,045,921	190,075	(14,623)	1,221,373
NONOPERATING REVENUES (EXPENSES)				
Interest and investment revenue	15,019	2,584	43	17,646
Interest expense	(774,081)	-	(6,462)	(780,543)
Gain (loss) on asset sales	(24,725)	-	-	(24,725)
TOTAL NONOPERATING REVENUES (EXPENSES)	(783,787)	2,584	(6,419)	(787,622)
Income (loss) before contributions and transfers	262,134	192,659	(21,042)	433,751
Capital contributions and grants	90,380	-	4,056	94,436
Transfers in	906,435	-	19,716	926,151
Transfers out	(226,280)	(201,193)	-	(427,473)
Income after contributions and transfers	1,032,669	(8,534)	2,730	1,026,865
CHANGE IN NET ASSETS	1,032,669	(8,534)	2,730	1,026,865
TOTAL NET ASSETS - BEGINNING	5,779,252	833,402	1,999,778	8,612,432
TOTAL NET ASSETS - ENDING	\$ 6,811,921	\$ 824,868	\$ 2,002,508	\$ 9,639,297

(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, 2011

	Water & Sewer Fund	Sanitation Fund	Airport Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from user charges	\$ 2,149,689	\$ 681,859	\$ 64,120	\$ 2,895,668
Other operating revenue	91,045	107,831	56	198,932
Cash payments to employees for services	(406,910)	(13,898)	-	(420,808)
Cash payments for contracted services	(37,035)	(591,460)	(3,115)	(631,610)
Cash payments to suppliers	(155,674)	-	(3,069)	(158,743)
Cash payments for other operating expenses	(290,385)	-	(18,826)	(309,211)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,350,730	184,332	39,166	1,574,228
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers to other funds	(226,280)	(201,193)	-	(427,473)
Transfers from other funds	906,435	-	19,716	926,151
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	680,155	(201,193)	19,716	498,678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition (disposition) of capital assets	4,561,747	-	-	4,561,747
Payments on notes, bonds, and leases payable	(10,676,920)	-	(159,793)	(10,836,713)
Interest paid on notes, bonds, and leases payable	(861,317)	-	(6,462)	(867,779)
Proceeds from bonds	4,318,167	-	-	4,318,167
Capital contributions and grants	90,380	-	4,056	94,436
NET CASH USED BY FINANCING ACTIVITIES	(2,567,943)	-	(162,199)	(2,730,142)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturities of certificates of deposit	126,987	-	-	126,987
Interest on investments	15,019	2,584	43	17,646
Interfund loans collected (funded)	341,974	(120,790)	103,836	325,020
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	483,980	(118,206)	103,879	469,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,078)	(135,067)	562	(187,583)
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2010	1,299,238	554,454	18,262	1,871,954
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2011	\$ 1,246,160	\$ 419,387	\$ 18,824	\$ 1,684,371
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,045,921	\$ 190,075	\$ (14,623)	\$ 1,221,373
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	289,585	-	57,203	346,788
(Increase) decrease in accounts receivable	6,285	(1,500)	(3,497)	1,288
Increase (decrease) in accounts payable	4,065	(4,226)	83	(78)
Increase (decrease) in accrued wages	4,874	(17)	-	4,857
Total adjustments	304,809	(5,743)	53,789	352,855
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,350,730	\$ 184,332	\$ 39,166	\$ 1,574,228

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

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

COMPONENT UNIT

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

BLENDED COMPONENT UNITS

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary funds:

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

The sanitation fund accounts for residential and commercial solid waste collections and disposal services for the City.

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

Additionally, the City reports the following fund types:

Governmental Funds:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

E. INTERFUND RECEIVABLES AND PAYABLES

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

F. ESTIMATES

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

G. CASH EQUIVALENTS

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

H. RESTRICTED ASSETS

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

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS

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

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

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

J. DEFERRED BOND ISSUE COSTS

Deferred bond issue costs are amortized on a straight-line basis over the remaining life of the bonds.

K. COMPENSATED ABSENCES

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

L. FUND BALANCES - GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

M. INTERFUND TRANSACTIONS

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

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. RISK FINANCING

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

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:

Violation

Expenditures exceeded appropriations in the Economic Development Fund.

Action Taken

This condition resulted from the issuance of sales tax revenue bonds for the purchase of a 42.77% interest in Lake Gilmer, a transaction that was approved by the Economic Development Fund Board of Directors and the Gilmer City Council.

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, 2010 upon which the 2011 fiscal-year levy was based, was \$263,549,051 and the tax levy was set at \$.629 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, 2011, for the fiscal 2011 tax levy were 95.46 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2011, were \$268,603.

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, 2011 is \$88,120.

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Land	\$ 1,530,697	\$ 4,800,000	\$ -	\$ 6,330,697
Infrastructure	3,920,298	-	-	3,920,298
Buildings and Improvements	3,735,462	34,484	-	3,769,946
Machinery, Furniture and Equipment	1,886,878	267,183	(28,572)	2,125,489
Totals at Historic Cost	<u>11,073,335</u>	<u>5,101,667</u>	<u>(28,572)</u>	<u>16,146,430</u>
Less accumulated depreciation for:				
Infrastructure	(2,138,825)	(95,075)	-	(2,233,900)
Buildings and Improvements	(1,067,455)	(84,290)	-	(1,151,745)
Machinery, Furniture and Equipment	(1,083,017)	(144,119)	28,572	(1,198,564)
Total accumulated depreciation	<u>(4,289,297)</u>	<u>(323,484)</u>	<u>28,572</u>	<u>(4,584,209)</u>
Governmental activities capital assets, net	<u>\$ 6,784,038</u>	<u>\$ 4,778,183</u>	<u>\$ -</u>	<u>\$ 11,562,221</u>
<u>Business-type activities:</u>				
Land	\$ 4,503,164	\$ 22,000	\$ -	\$ 4,525,164
Construction in progress	-	55,114	-	55,114
Total capital assets not being depreciated	<u>4,503,164</u>	<u>77,114</u>	<u>-</u>	<u>4,580,278</u>
Land Improvements	9,890,194	6,820	(4,800,000)	5,097,014
Infrastructure	12,843,526	250,433	-	13,093,959
Buildings and Improvements	978,270	-	-	978,270
Machinery, Furniture and Equipment	502,341	-	(19,000)	483,341
Total capital assets being depreciated	<u>24,214,331</u>	<u>257,253</u>	<u>(4,819,000)</u>	<u>19,652,584</u>
Less accumulated depreciation for:				
Land Improvements	(996,535)	(137,306)	-	(1,133,841)
Infrastructure	(4,973,656)	(119,680)	-	(5,093,336)
Buildings and Improvements	(150,723)	(20,312)	-	(171,035)
Machinery, Furniture and Equipment	(352,625)	(69,490)	19,000	(403,115)
Total accumulated depreciation	<u>(6,473,539)</u>	<u>(346,788)</u>	<u>19,000</u>	<u>(6,801,327)</u>
Total capital assets being depreciated, net	<u>17,740,792</u>	<u>(89,535)</u>	<u>(4,800,000)</u>	<u>12,851,257</u>
Business-type activities capital assets, net	<u>\$ 22,243,956</u>	<u>\$ (12,421)</u>	<u>\$ (4,800,000)</u>	<u>\$ 17,431,535</u>

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

<u>Governmental activities:</u>	
Legislative	\$ 828
Municipal Court	3,641
Executive/Administration	13,253
Community Development	5,551
Financial Administration	7,393
Police	61,143
Fire Protection	36,155
Highways and Streets	125,388
Civic Center	70,132
Total depreciation expense - governmental activities	<u>323,484</u>
<u>Business-type activities:</u>	
Water and sewer	289,585
Airport	57,203
Total depreciation expense - business-type activities	<u>346,788</u>

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2011, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Obligations of the City of Gilmer:					
General obligation bonds	\$ 575,000	\$ -	\$ 105,000	\$ 470,000	\$ 110,000
Accrual for compensated absences	98,809	-	3,044	95,765	-
Total Obligations of the City of Gilmer	<u>673,809</u>	<u>-</u>	<u>108,044</u>	<u>565,765</u>	<u>110,000</u>
Obligations of Economic Development Corp:					
Sales tax revenue bonds	-	4,545,000	135,000	4,410,000	135,000
Total Governmental Activities	<u>\$ 673,809</u>	<u>\$ 4,545,000</u>	<u>\$ 243,044</u>	<u>\$ 4,975,765</u>	<u>\$ 245,000</u>
Business-type Activities:					
Revenue bonds	\$ 9,945,000	\$ 5,200,000	\$ 10,235,000	\$ 4,910,000	\$ 255,000
Tax and revenue certificates of obligation	5,785,000	-	275,000	5,510,000	280,000
Notes payable	225,138	-	225,138	-	-
Capital lease payable	<u>101,574</u>	<u>-</u>	<u>101,574</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 16,056,712</u>	<u>\$ 5,200,000</u>	<u>\$ 10,836,712</u>	<u>\$ 10,420,000</u>	<u>\$ 535,000</u>
Total Long-term Debt	<u>\$ 16,730,521</u>	<u>\$ 9,745,000</u>	<u>\$ 11,079,756</u>	<u>\$ 15,395,765</u>	<u>\$ 780,000</u>

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

	Balance as of September 30, 2011
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	\$ 470,000
Total General Obligation Bonds	<u>470,000</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.	4,410,000
Total Sales Tax and Revenue Bonds	<u>4,410,000</u>
Total Governmental Activities	<u>\$ 4,880,000</u>
Business-Type Activities:	
<u>Revenue Bonds</u>	
2010 Waterworks and Sewer System Refunding Bond; principal plus interest varying from 3.0% to 4.25% due semi-annually through July 1, 2034.	\$ 4,910,000
Total Revenue Bonds	<u>4,910,000</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	965,000
2001 Combination Tax and Revenue Certificates of Obligation; principal plus interest varying from 4.5% to 6.5% due semi-annually through May 15, 2027	4,545,000
Total Tax and Revenue Certificates of Obligation	<u>5,510,000</u>
Total Business-Type Activities	<u>\$ 10,420,000</u>

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt subsequent to September 30, 2011 are as follows:

Governmental activities:

Year Ending September 30	Principal	Interest	Total
2012	\$ 245,000	\$ 211,740	\$ 456,740
2013	255,000	204,200	459,200
2014	260,000	196,225	456,225
2015	270,000	187,325	457,325
2016	150,000	178,075	328,075
2017-2021	830,000	802,626	1,632,626
2022-2026	1,005,000	610,363	1,615,363
2027-2031	1,270,000	345,500	1,615,500
2032-2033	595,000	45,000	640,000
	<u>\$ 4,880,000</u>	<u>\$ 2,781,054</u>	<u>\$ 7,661,054</u>

Business-type activities:

Year Ending September 30	Principal	Interest	Total
2012	\$ 535,000	\$ 448,586	\$ 983,586
2013	555,000	429,485	984,485
2014	575,000	403,686	978,686
2015	605,000	277,810	882,810
2016	445,000	348,361	793,361
2017-2021	2,360,000	1,471,657	3,831,657
2022-2026	2,795,000	926,528	3,721,528
2027-2031	1,665,000	364,315	2,029,315
2032-2034	885,000	76,076	961,076
	<u>\$ 10,420,000</u>	<u>\$ 4,746,504</u>	<u>\$ 15,166,504</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.

City of Gilmer Waterworks and Sewer System Refunding Bond, Series 2010

During the year, the City of Gilmer issued Waterworks and Sewer System Revenue Refunding Bonds, Series 2010, in the amount of \$5,200,000. The bonds were issued to refund the City's outstanding \$5,105,000 Waterworks and Sewer System Revenue Bonds, Series 1998. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Water and Sewer Fund statement of net assets. The transaction resulted in a reduction of \$794,720 in future debt service payments, having an estimated net present value of \$524,484.

Gilmer Economic Development Corporation Sales Tax Revenue Bonds, Series 2011

During the year, the Gilmer Economic Development Corporation (a component unit of the City of Gilmer, Texas) issued Sales Tax Revenue Bonds, Series 2011, in the amount of \$4,545,000. The bonds were issued for the purpose of purchasing the Texas Water Development Board's ownership interest in Lake Gilmer. The bonds are secured by a lien on and pledge of the Gilmer Economic Development Corporation's receipts from a one-half of one percent sales and use tax collected within the boundaries of the City of Gilmer, Texas, for the benefit of the Corporation. As a result of this transaction, the City of Gilmer conveyed a 42.77% interest in Lake Gilmer to the Gilmer Economic Development Corporation in exchange for the Corporation's payment in full of the City of Gilmer's obligation to the Texas Water Development Board in the amount of \$4,800,000.

The Gilmer Economic Development Corporation Sales Tax Revenue Bonds, Series 2011, do not constitute obligations of the City of Gilmer but are reported herein because they are an obligation of its component unit, Gilmer Economic Development Corporation.

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2011 were as follows:

	Due To					Totals
	General Fund	Debt Service	Economic Development	Sanitation Fund	Water & Sewer	
General Fund	\$ -	\$ -	\$ 31,912	\$ 120,790	\$ -	\$ 152,702
Economic Development	-	-	-	-	70,190	70,190
Sanitation Fund	-	-	-	-	-	-
Debt Service	2,000	-	-	-	-	2,000
Water & Sewer Fund	-	247,750	-	-	-	247,750
Airport Fund	-	23,067	-	-	103,836	126,903
	<u>\$ 2,000</u>	<u>\$ 270,817</u>	<u>\$ 31,912</u>	<u>\$ 120,790</u>	<u>\$ 174,026</u>	<u>\$ 599,545</u>

Interfund loans consist of current and prior year borrowings between funds to satisfy cash flow requirements.

Interfund transfers for the year ended September 30, 2011 were as follows:

Transfer From	Transfer To					Totals
	General Fund	Debt Service	Other Governmental	Water & Sewer	Airport	
General Fund	\$ -	\$ -	\$ 99,213	\$ -	\$ -	\$ 99,213
Debt Service Fund	-	-	-	560,575	-	560,575
Economic Development Fund	-	-	-	345,860	-	345,860
Other Governmental Funds	75	-	-	-	-	75
Water & Sewer Fund	226,280	-	-	-	-	226,280
Sanitation Fund	41,559	96,000	43,918	-	19,716	201,193
	<u>\$ 267,914</u>	<u>\$ 96,000</u>	<u>\$ 143,131</u>	<u>\$ 906,435</u>	<u>\$ 19,716</u>	<u>\$ 1,433,196</u>
	To fund current operations and pay off interfund debts	To fund debt payments	To fund Civic Center improvements, and match on grant contract	To fund debt service requirements	To provide matching funds for grant	

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

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 2010	Plan Year 2011
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)	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:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation/(Asset)</u>
2009	221,707	208,269	94%	13,438
2010	253,169	226,569	89%	40,038
2011	225,800	225,800	100%	-

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows.

Valuation Date	12/31/2008	12/31/2009	12/31/2010 - prior to restructuring	12/31/2010 - Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29.0 years; closed period	28.1 years; closed period	27.1 years; closed period	27.1 years; closed period
Amortization Period for New	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%	2.1%

Funded Status and Funding Progress - In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructuring of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, 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
12/31/2010 (1)	\$ 3,694,639	\$ 5,390,739	68.5%	\$ 1,696,100	\$ 1,744,193	97.2%
12/31/2010 (2)	4,489,791	6,061,024	74.1%	1,571,233	1,744,193	90.1%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

C. SUPPLEMENTAL DEATH BENEFITS FUND

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

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

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

The city's contributions to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$ 4,762, \$4,591 and \$4,285, respectively, which equaled the required contributions each year.

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2010, there were 199 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

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

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

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.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

C. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ended August 31, 2010, total contributions (dues and prior service) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2008 actuarial valuation.

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

NOTE 8 - RESTRICTED FUND BALANCE

As of September 30, 2011, fund balances restricted for specific purposes were as follows:

General Fund		
	Hotel-Motel tax	\$ 14,809
	Court Restricted Funds	13,622
		<u>\$ 28,431</u>
Other Governmental Funds		
	Police Dept Seizure Fund	\$ 2,734
	Police Officer Fund	1,646
	Civic Center	40,248
	USDA Loan Program - current	1,566
	USDA Loan Program - noncurrent	81,202
	Police Explorers' Group	625
		<u>\$ 128,021</u>

NOTE 9 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2011, the carrying amounts of the City's bank accounts were \$2,348,229 and the balances on deposit were \$2,364,214. The City's cash deposits at September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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 area of management reports, the City did not adhere to the requirements of the Act at all times during the year. An investment officer did not receive the required amount of training.

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.

CITY OF GILMER, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

The City's investments at September 30, 2011, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Various	\$ 878,631
Total Investments		<u>\$ 878,631</u>

Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

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.

CITY OF GILMER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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.

Commitments

The City has entered into a contract for a SCADA water read system in the amount of \$131,500. At September 30, 2011, there had been no expenditures related to the contract. Funding will be provided by the Water and Sewer Fund.

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 \$178,487 at September 30, 2011.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February, 21, 2012, the date on which the financial statements were available to be issued.

In October, 2011, the City entered into a contract for lift station and sewer system upgrades in the amount of \$461,568. Funding for this project is provided by the Water and Sewer Fund.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GILMER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,071,000	\$ 1,071,000	\$ 1,065,688	\$ (5,312)
Penalty and interest	14,000	14,000	22,115	8,115
Sales tax	800,000	800,000	878,982	78,982
Franchise taxes	223,250	223,250	218,720	(4,530)
Fines and forfeitures	208,000	208,000	275,278	67,278
Licenses and permits	12,325	12,325	31,078	18,753
Other taxes	75,645	75,645	58,680	(16,965)
Investment income	3,000	3,000	2,394	(606)
Rents and royalties	17,000	17,000	11,078	(5,922)
Proceeds of asset sales	-	-	3,339	3,339
Donations	-	-	1,185	1,185
Intergovernmental revenues and grants	63,600	115,178	70,992	(44,186)
Miscellaneous	19,400	19,400	44,792	25,392
TOTAL REVENUES	2,507,220	2,558,798	2,684,321	125,523
EXPENDITURES:				
Legislative	17,300	18,380	15,842	2,538
Municipal court	58,370	74,021	69,672	4,349
Executive/administration	187,424	260,629	253,581	7,048
Community development	107,673	128,319	106,224	22,095
Financial administration	115,501	146,195	141,462	4,733
Police	863,167	1,196,657	1,169,816	26,841
Fire protection	368,130	489,043	665,384	(176,341)
Highways and streets	271,475	330,554	290,959	39,595
Civic center	-	-	20,900	(20,900)
Non-departmental	1,009,819	358,833	191,550	167,283
TOTAL EXPENDITURES	2,998,859	3,002,631	2,925,390	77,241
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(491,639)	(443,833)	(241,069)	202,764
OTHER FINANCING SOURCES (USES):				
Transfers in	492,839	495,033	267,914	(227,119)
Transfers out	-	(52,119)	(99,213)	(47,094)
TOTAL OTHER FINANCING SOURCES (USES)	492,839	442,914	168,701	(274,213)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,200	(919)	(72,368)	(71,449)
FUND BALANCE, OCTOBER 1, 2010	265,132	265,132	265,132	-
FUND BALANCE, SEPTEMBER 30, 2011	\$ 266,332	\$ 264,213	\$ 192,764	\$ (71,449)

CITY OF GILMER, TEXAS
ECONOMIC DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Sales tax	\$ 400,000	\$ 400,000	\$ 439,491	\$ 39,491
Investment income	10,000	10,000	7,433	(2,567)
 TOTAL REVENUES	 <u>410,000</u>	 <u>410,000</u>	 <u>446,924</u>	 <u>36,924</u>
EXPENDITURES:				
Non-departmental	60,000	60,000	4,865,924	(4,805,924)
Debt service - principal	-	-	135,000	(135,000)
Debt service - interest and other charges	-	-	48,893	(48,893)
Debt issuance costs	-	-	194,351	(194,351)
 TOTAL EXPENDITURES	 <u>60,000</u>	 <u>60,000</u>	 <u>5,244,168</u>	 <u>(5,184,168)</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 350,000	 350,000	 (4,797,244)	 (5,147,244)
OTHER FINANCING SOURCES (USES):				
Bonds issued	-	-	4,545,000	4,545,000
Discount on bonds issued	-	-	(23,732)	(23,732)
Accrued interest on bonds issued	-	-	17,191	17,191
Transfers out	(327,361)	(327,361)	(345,860)	(18,499)
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>(327,361)</u>	 <u>(327,361)</u>	 <u>4,192,599</u>	 <u>4,519,960</u>
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 22,639	 22,639	 (604,645)	 (627,284)
 FUND BALANCE, OCTOBER 1, 2010	 <u>966,819</u>	 <u>966,819</u>	 <u>966,819</u>	 <u>-</u>
 FUND BALANCE, SEPTEMBER 30, 2011	 <u>\$ 989,458</u>	 <u>\$ 989,458</u>	 <u>\$ 362,174</u>	 <u>\$ (627,284)</u>

CITY OF GILMER, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

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
12/31/2008	2,960,025	4,512,124	65.6%	1,552,099	1,634,913	94.9%
12/31/2009	3,231,396	4,927,312	65.6%	1,695,916	1,803,482	94.0%
12/31/2010 ¹	3,694,639	5,390,739	68.5%	1,696,100	1,744,193	97.2%
12/31/2010 ²	4,489,791	6,061,024	74.1%	1,571,233	1,744,193	90.1%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

CITY OF GILMER, TEXAS

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

Notes:

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

Fiscal Year Ended August 31,	Schedule of Employer Contributions		
	Annual Required Contribution	Actual Contribution	Percentage Contributed
2005	\$ 3,206,300	\$ 1,606,759	50%
2006	2,753,035	2,753,035	100%
2007	3,162,742	3,162,742	100%
2008	3,160,764	11,239,339	356%
2009	2,698,271	2,698,271	100%
2010	2,875,103	2,875,103	100%

Notes to the Required Supplementary Information

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

Valuation date	August 31, 2010
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75% per year, net of investment expenses
Projected salary increases	N/A
*Includes inflation at	3.50%
Cost-of-living adjustments	None

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COMPLIANCE SECTION

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KAREN A. JACKS & ASSOCIATES, P.C.

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INDEPENDENT AUDITORS' REPORT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Gilmer, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilmer, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City of Gilmer, Texas' basic financial statements and have issued our report thereon dated February 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gilmer, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gilmer, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gilmer, Texas' internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Gilmer, Texas in a separate letter dated February 21, 2012.

This report is intended for the information and use of management, City Council, other within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Karen A. Jacks & Associates, P.C.
Karen A. Jacks & Associates, P.C.

Longview, Texas
February 21, 2012

CITY OF GILMER, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 2011

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

B. Financial Statement Findings

None

CITY OF GILMER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2011

None required.

CITY OF GILMER, TEXAS
SCHEDULE OF GRANT REVENUE AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Grantor: Texas Department of Rural Affairs
CFDA Number 14.228
Project Number DRS010054
Contract Period 12/1/2009 - 11/30/2011

	Budget	Actual				Total	Variance
		Prior Years		Current Year			
		Federal	Local	Federal	Local		
REVENUE							
Federal/State	\$ 119,995	\$ -	\$ -	\$ 100,540	\$ -	\$ 100,540	\$ 19,455
TOTAL REVENUE	119,995	-	-	100,540	-	100,540	19,455
EXPENDITURES							
Federal/State:							
Water Facilities	93,795	-	-	75,000	-	75,000	18,795
Engineering	13,000	-	-	13,000	-	13,000	-
Planning/Project Delivery	13,200	-	-	12,540	-	12,540	660
TOTAL EXPENDITURES	119,995	-	-	100,540	-	100,540	19,455
EXCESS REVENUE OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Grantor: Texas Department of Rural Affairs
CFDA Number 14.228
Project Number 729281
Contract Period 09/30/09 - 09/29/11

	Budget	Actual				Total	Variance
		Prior Years		Current Year			
		Federal	Local	Federal	Local		
REVENUE							
Federal/State	\$ 250,000	\$ 10,328	\$ -	\$ 235,066	\$ -	\$ 245,394	\$ 4,606
Local	50,000	-	-	-	50,000	50,000	-
TOTAL REVENUE	300,000	10,328	-	235,066	50,000	295,394	4,606
EXPENDITURES							
Federal/State:							
Streets	223,700	-	-	219,094	-	219,094	4,606
Engineering	16,300	10,328	-	5,972	-	16,300	-
General Administration	10,000	-	-	10,000	-	10,000	-
Local:							
Engineering	30,000	-	-	-	39,000	39,000	(9,000)
General Administration	20,000	-	-	-	11,000	11,000	9,000
TOTAL EXPENDITURES	300,000	10,328	-	235,066	50,000	295,394	4,606
EXCESS REVENUE OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -