

CITY OF GATESVILLE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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FINANCIAL SECTION

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Lott, Vernon & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Ronald E. Stepp, CPA
Jerry D. Tyroch Jr., CPA
Dane Legg, CPA
Deborah K. Hershberger, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Gatesville, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gatesville, Texas basic financial statements. The combining and individual non-major fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide an assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2016, on our consideration of the City of Gatesville, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gatesville, Texas's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jett, Vernon & Co., P.C." The signature is written in a cursive, flowing style.

Killeen, Texas
January 30, 2016

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**MANAGEMENT'S
DISCUSSION & ANALYSIS**

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Management's Discussion and Analysis

As management of the City of Gatesville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2015, by \$16,890,900 (net position). Of this amount \$17,954,386 is restricted for capital assets and \$1,722,954 is restricted for debt services.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,940,812.
- As of September 30, 2015, unassigned fund balance for the General Fund was \$343,594.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported with 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 and earned but unused compensation 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 cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, and culture and recreation. The business-type activities of the City include water and sewer, fitness center and airport 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 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 on governmental fund 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 government activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheets 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.

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

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 the Enterprise Funds to account for water and sewer, fitness center, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements.

The combining fund statements and schedules for nonmajor funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16,890,900 as of September 30, 2015.

A large portion of the City's net position reflects its investments in capital assets (e.g., land, buildings, equipment, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services 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 GATESVILLE'S NET POSITION

	Government Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 978,588	\$1,271,669	\$ 1,591,994	\$ 3,271,121	\$ 2,570,582	\$ 4,542,790
Capital assets	7,183,044	5,614,697	28,870,253	30,213,808	36,053,297	35,828,505
Total assets	<u>8,161,632</u>	<u>6,886,366</u>	<u>30,462,247</u>	<u>33,484,929</u>	<u>38,623,879</u>	<u>40,371,295</u>
Deferred Outflows of resources	480,388	-	249,013	-	729,401	-
Current liabilities	586,199	711,026	548,086	921,811	1,134,285	1,632,837
Noncurrent liabilities	4,115,009	2,374,335	17,213,086	16,597,017	21,328,095	18,971,352
Total liabilities	<u>4,701,208</u>	<u>3,085,361</u>	<u>17,761,172</u>	<u>17,518,828</u>	<u>22,462,380</u>	<u>20,604,189</u>
Net position:						
Invested in capital assets net of related debt	5,220,459	3,347,659	12,733,927	13,716,977	17,954,386	17,064,636
Restricted	190,373	171,557	1,532,581	1,536,474	1,722,954	1,708,031
Unrestricted	<u>(1,470,020)</u>	<u>281,789</u>	<u>(1,316,420)</u>	<u>712,650</u>	<u>(2,786,440)</u>	<u>994,439</u>
Total net position	<u>\$3,940,812</u>	<u>\$3,801,005</u>	<u>\$12,950,088</u>	<u>\$ 15,966,101</u>	<u>\$ 16,890,900</u>	<u>\$ 19,767,106</u>

As of September 30, 2015, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

CITY OF GATESVILLE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
REVENUES:						
Program revenues:						
Charges for services	\$ 234,618	\$ 318,124	\$ 8,199,246	\$ 8,393,898	\$ 8,433,864	\$ 8,712,022
Operating grants	193,786	57,619	-	-	193,786	57,619
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	1,484,342	1,375,936	-	-	1,484,342	1,375,936
Sales taxes	1,951,406	1,655,481	-	-	1,951,406	1,655,481
Franchise taxes	301,931	332,116	-	-	301,931	332,116
Hotel/motel taxes	107,850	102,179	-	-	107,850	102,179
Other taxes	9,981	10,731	-	-	9,981	10,731
Investment earnings	1,331	2,741	4,179	10,019	5,510	12,760
Unrestricted contributions	23,850	23,881	-	-	23,850	23,881
Miscellaneous	80,261	178,039	-	-	80,261	178,039
Total revenues	<u>4,389,356</u>	<u>4,056,847</u>	<u>8,203,425</u>	<u>8,403,917</u>	<u>12,592,781</u>	<u>12,460,764</u>
EXPENSES:						
General government	922,800	731,454	-	-	922,800	731,454
Public safety	2,176,969	2,111,564	-	-	2,176,969	2,111,564
Public works	954,498	1,060,918	-	-	954,498	1,060,918
Culture and recreation	709,433	806,550	-	-	709,433	806,550
Water and Sewer	-	-	8,297,826	8,319,378	8,297,826	8,319,378
Airport	-	-	49,635	72,688	49,635	72,688
Total expenses	<u>4,763,700</u>	<u>4,710,486</u>	<u>8,347,461</u>	<u>8,392,066</u>	<u>13,111,161</u>	<u>13,102,552</u>
INCREASES (DECREASES) IN BEFORE TRANSFERS	(374,344)	(653,639)	(144,036)	11,851	(518,380)	(641,788)
TRANSFERS	<u>2,153,455</u>	<u>327,341</u>	<u>(2,153,455)</u>	<u>(327,341)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	1,779,111	(326,298)	(2,297,491)	(315,490)	(518,380)	(641,788)
Net position, (beginning of year as restated see Note I.Q. on page 32)	2,161,701	4,127,303	15,247,579	16,281,591	17,409,280	20,408,894
Net position (end of year)	<u>\$ 3,940,812</u>	<u>\$ 3,801,005</u>	<u>\$ 12,950,088</u>	<u>\$ 15,966,101</u>	<u>\$ 16,890,900</u>	<u>\$ 19,767,106</u>

Governmental Activities.

Revenues from governmental activities when compared to the prior year had an increase of \$332,509. Expenditures in governmental activities increased \$53,214 from the prior year with the largest increase of \$191,346 in general government.

Business-type Activities.

Revenues from business-type activities decreased \$200,492 from the prior year. Expenses decreased \$44,605 from the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Government Funds. The focus of the City'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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$365,606. Approximately 94 percent of this total amount (\$343,594) constitutes unassigned fund balance.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original budgeted expenditures and final amended budgeted expenditures amount was \$107,272. The most significant change was an increase of \$62,533 in capital outlay.

Capital Assets.

Governmental capital assets increased \$1,568,347 from 2014 due to a reclassification of assets from the Enterprise Fund. Business-type capital assets decreased \$1,343,555 due to a reclassification of assets to the General Fund. The table below presents the City's capital assets as of September 30, 2015, as well as the previous fiscal year-end.

CITY OF GATESVILLE'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 636,543	\$ 596,733	\$ 300,339	\$ 278,661	\$ 936,882	\$ 875,394
Buildings and improvements	2,597,720	3,694,442	55,679,096	53,366,012	58,276,816	57,060,454
Improvements other than buildings	3,377,641	1,199,031	-	-	3,377,641	1,199,031
Machinery and equipment	3,547,241	3,311,270	2,013,797	1,384,160	5,561,038	4,695,430
Construction in progress	667,668	292,695	208,007	2,340,918	875,675	2,633,613
Less accumulated depreciation	<u>(3,643,769)</u>	<u>(3,479,474)</u>	<u>(29,330,986)</u>	<u>(27,155,943)</u>	<u>(32,974,755)</u>	<u>(30,635,417)</u>
Total capital assets, net	<u>\$7,183,044</u>	<u>\$ 5,614,697</u>	<u>\$ 28,870,253</u>	<u>\$ 30,213,808</u>	<u>\$ 36,053,297</u>	<u>\$ 35,828,505</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt of \$21,328,095. Of this amount, \$13,173,860 represents debt backed by the full faith and credit of the City. \$4,920,000 represents utility revenue bonds secured by water and sewer revenues.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligations	\$ 1,365,000	\$ 1,500,000	\$ 10,898,149	\$ 11,413,149	\$ 12,263,149	\$ 12,913,149
Note payable	597,585	767,039	313,126	46,929	910,711	813,968
Revenue bonds payable	-	-	4,920,000	5,030,000	4,920,000	5,030,000
Compensated absences	114,909	125,411	66,200	63,163	181,109	188,574
Net pension liability	1,978,180	-	962,134	-	2,940,314	-
Net OPEB obligation	59,335	48,571	53,477	43,776	112,812	92,347
Total debt	<u>\$4,115,009</u>	<u>\$2,441,021</u>	<u>\$17,213,086</u>	<u>\$16,597,017</u>	<u>\$21,328,095</u>	<u>\$19,038,038</u>

Additional information on the city's long-term debt is found within the notes section of this report.

ECONOMIC FACTORS

Gatesville's economy is shaped (and heavily influenced) by some unique and variable factors that complicate long-range budget planning. Several of those factors lie outside the City's ability to control and influence, most notably the increasing urbanization in the IH-35 corridor and the impact of the global geo-strategic framework as it relates to Fort Hood. Gatesville finds itself on the cusp of transition from a mostly rural agriculture-dominated economy to a small city economy within the fastest growing region in the country.

The revenue flows that fund the essential municipal services the City must provide to its citizens are atypical to the general pattern seen in most cities in Texas. A 2014 Texas Municipal League (TML) survey found that on average, cities in Texas derive 41 percent of their General Fund revenues from property taxes and 27 percent from sales taxes, the opposite is the case in Gatesville. In 2015, 32.7 percent of General Fund revenue came from property taxes and 41 percent were derived from sales taxes. With a relative low property valuation in Gatesville, tax increases do not generate significantly more revenues for the City.

The three largest employers in the City of Gatesville account for 3,449 total employees (TDCJ-2,631; Gatesville ISD-423; Coryell Memorial Healthcare System-395) but do not pay property taxes to the City. Estimates are that 65 percent of the TDCJ employees do not live within (and pay property taxes or a significant amount of sales tax based on consumer consumption) Gatesville. The primary source of revenue generated by these entities is through water sales and wastewater treatment services. Prior to 2016, the City of Gatesville was subsidizing wastewater treatment provided to the TDCJ (estimated at over \$200,000 in 2015); that has since been corrected and the TDCJ pays the amount it costs to treat their wastewater.

Weather played a significant role in the City's 2015 financial picture. The formation of El Nino in the Pacific Ocean resulted in record rainfall amounts in the Spring and Summer, limiting the historical water sales the City had experienced in the seven years of drought preceding 2015. As a result, assumptions on water sales (made in the summer of 2014 during budget preparation) fell short of anticipated revenues.

2015 saw continued, measured economic progress in Gatesville. Hillside Medical Lodge opened a new skilled nursing facility on SH36, and donated their previous facility to the Gatesville ISD which will utilize it as the “hub” of their Career and Technology Education (CTE) program expansion. 2016 will see the addition of a new Holiday Inn Express and a \$40 million-plus expansion to the Coryell Memorial Healthcare System campus. As the United States Army reduces to an Active end strength of 450,000 by 2018 (from a wartime high of 570,000) the nation will rely more heavily on the Reserve Component (Army National Guard and Army Reserve) to meet its operational requirements. As one of only two enduring Mobilization Force Generation Installations in the United States Army, North Fort Hood should continue to experience increases in the mobilization mission. While the direct economic impact of North Fort Hood on the Gatesville economy is limited, North Fort Hood is a major customer of the City of Gatesville for water and wastewater treatment.

GASB 68 brought a new reporting liability to state and local government financial reporting for the year. Employees who retire from a government position earn a pension that becomes a liability to be paid in the future. When this liability exceeds the pension plan net assets, then it must be reported as a net pension liability on the financial reports. Reporting this liability more clearly portrays the City’s financial status. The total net pension for the City of Gatesville for the 2014/2015 fiscal year was \$2,940,314.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Brenda Kiphen, Director of Finance, 110 North 8th Street, Gatesville, Texas 76528.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF GATESVILLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and investments	\$ 361,279	\$ 1,160,404	\$ 1,521,683
Receivables (net of allowance for uncollectibles)			
Taxes	27,400	-	27,400
Accounts	402,514	618,985	1,021,499
Internal balances	187,395	(187,395)	-
Capital assets:			
Land and improvements	636,543	300,339	936,882
Building and improvements	2,597,720	55,679,096	58,276,816
Improvements other than buildings	3,377,641	-	3,377,641
Machinery and equipment	3,547,241	2,013,797	5,561,038
Construction in progress	667,668	208,007	875,675
Less: accumulated depreciation	(3,643,769)	(29,330,986)	(32,974,755)
Total capital assets	<u>7,183,044</u>	<u>28,870,253</u>	<u>36,053,297</u>
 Total Assets	 <u>\$ 8,161,632</u>	 <u>\$ 30,462,247</u>	 <u>\$ 38,623,879</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	\$ 480,388	\$ 249,013	\$ 729,401
Total Deferred Outflows of Resources	<u>\$ 480,388</u>	<u>\$ 249,013</u>	<u>\$ 729,401</u>
LIABILITIES			
Accounts payable	\$ 347,447	\$ 122,001	\$ 469,448
Accrued liabilities	-	19,337	19,337
Customer deposits	-	250,891	250,891
Accrued interest	-	155,857	155,857
Deferred revenue	238,752	-	238,752
Noncurrent liabilities:			
Due within one year	352,877	1,034,326	1,387,203
Due in more than one year	1,783,952	15,216,626	17,000,578
Net pension liability (City's share)	1,978,180	962,134	2,940,314
 Total Liabilities	 <u>\$ 4,701,208</u>	 <u>\$ 17,761,172</u>	 <u>\$ 22,462,380</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	\$ 5,220,459	\$ 12,733,927	\$ 17,954,386
Restricted for:			
Debt Service	168,361	1,532,581	1,700,942
Other	22,012	-	22,012
Unrestricted	<u>(1,470,020)</u>	<u>(1,316,420)</u>	<u>(2,786,440)</u>
 Total Net Position	 <u>\$ 3,940,812</u>	 <u>\$ 12,950,088</u>	 <u>\$ 16,890,900</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GATESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>FUNCTION/PROGRAM ACTIVITY</u>	Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:				
Governmental Activities:				
General government	\$ 922,800	\$ 38,411	\$ 193,786	\$ -
Public safety	2,176,969	133,593	-	-
Public Works	954,498	-	-	-
Culture and recreation	709,433	62,614	-	-
Interest on long-term debt	-	-	-	-
Total governmental activities	4,763,700	234,618	193,786	-
Business-type Activities:				
Water and Sewer	8,297,826	8,096,447	-	-
Airport	49,635	102,799	-	-
Total business-type activities	8,347,461	8,199,246	-	-
Total primary government	\$ 13,111,161	\$ 8,433,864	\$ 193,786	\$ -
General revenues:				
Taxes:				
Property taxes				
Franchise fees				
Sales				
Occupancy				
Mixed Beverage				
Unrestricted investment income				
Unrestricted contributions and donations				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position – beginning				
(as Restated see Note I.Q. on page 32)				
Net position - ending				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (690,603)	\$ -	\$ (690,603)
(2,043,376)	-	(2,043,376)
(954,498)	-	(954,498)
(646,819)	-	(646,819)
-	-	-
(4,335,296)	-	(4,335,297)
-	(201,379)	(201,379)
-	53,164	53,164
-	(148,215)	(148,215)
\$ (4,335,296)	\$ (148,215)	\$ (4,483,512)
\$ 1,484,342	\$ -	\$ 1,484,342
301,931	-	301,931
1,951,406	-	1,951,406
107,850	-	107,850
9,981	-	9,981
1,331	4,179	5,510
23,850	-	23,850
80,261	-	80,261
2,153,455	(2,153,455)	-
6,114,407	(2,149,276)	3,965,131
1,779,111	(2,297,491)	(518,380)
2,161,701	15,247,579	17,409,280
\$ 3,940,812	\$ 12,950,088	\$ 16,890,900

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CITY OF GATESVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 339,267	\$ 22,012	\$ 361,279
Receivables (net of allowance for uncollectibles):			
Taxes	27,400	-	27,400
Accounts	402,514	-	402,514
Due from other funds	187,395	-	187,395
Total Assets	\$ 956,576	\$ 22,012	\$ 978,588
LIABILITIES			
Accounts payable and accrued liabilities	\$ 347,447	\$ -	\$ 347,447
Deferred revenue	238,752	-	238,752
Total Liabilities	586,199	-	586,199
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	26,783	-	26,783
Total deferred inflows of resources	26,783	-	26,783
FUND BALANCES			
Restricted			
Other	-	22,012	22,012
Unassigned	343,594	-	343,594
Total Fund Balances	343,594	22,012	365,606
Total Liabilities and Fund Balances	\$ 956,576	\$ 22,012	\$ 978,588

The accompanying notes are an integral part of the financial statements.

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CITY OF GATESVILLE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2015

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental funds	\$ 365,606
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,183,044
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	26,480
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(3,634,651)
Fireman's Fund - Agency funds are included in government-wide financial statements but are not included in government fund financials, which increases net position	333
Net position of governmental activities	<u>\$ 3,940,812</u>

The accompanying notes are an integral part of the financial statements.

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CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes and special assessments:			
Property	\$ 1,457,559	\$ -	\$ 1,457,559
Other taxes and special assessments	2,263,318	107,850	2,371,168
Licenses and permits	38,411	-	38,411
Fines and forfeitures	133,593	-	133,593
Charges for services	62,614	-	62,614
Intergovernmental	193,786	-	193,786
Investment earnings	1,213	118	1,331
Contributions and donations	4,838	19,012	23,850
Miscellaneous	56,719	-	56,719
	<u>4,212,051</u>	<u>126,980</u>	<u>4,339,031</u>
EXPENDITURES			
Current:			
General government	788,580	-	788,580
Public safety	1,995,026	-	1,995,026
Public works	1,178,770	-	1,178,770
Culture and recreation	638,303	51,042	689,345
Debt service:			
Principal	260,126	-	260,126
Interest and fiscal charges	2,254	-	2,254
Capital outlay	827,136	-	827,136
	<u>5,690,195</u>	<u>51,042</u>	<u>5,741,237</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>(1,478,144)</u>	<u>75,938</u>	<u>(1,402,206)</u>
OTHER FINANCING SOURCES (USES)			
Gain on sale of property	23,542	-	23,542
Transfers in	1,277,124	-	1,277,124
Transfers out	(5,194)	(59,111)	(64,305)
	<u>1,295,472</u>	<u>(59,111)</u>	<u>1,236,361</u>
Net Change in Fund Balances			
	(182,672)	16,827	(165,845)
Fund Balances – Beginning	<u>526,266</u>	<u>5,185</u>	<u>531,451</u>
Fund Balances - Ending	<u>\$ 343,594</u>	<u>\$ 22,012</u>	<u>\$ 365,606</u>

The accompanying notes are an integral part of the financial statements.

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CITY OF GATESVILLE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (165,845)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,673,103
Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is the net decrease in pension costs not reported as an expenditure in governmental funds.	7,564
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	26,783
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	237,768
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(262)
Change in net position of governmental activities	<u>\$ 1,779,111</u>

CITY OF GATESVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes and special assessments:				
Property	\$ 1,472,650	\$ 1,472,550	\$ 1,457,559	\$ (14,991)
Other taxes and special assessments	2,261,500	2,368,872	2,263,318	(105,554)
Licenses and permits	34,000	34,000	38,411	4,411
Fines and forfeitures	183,000	183,000	133,593	(49,407)
Charges for services	80,050	80,050	62,614	(17,436)
Intergovernmental	-	-	193,786	193,786
Investment earnings	700	700	1,213	513
Contributions and donations	500	500	4,838	4,338
Miscellaneous	65,000	65,000	56,719	(8,281)
 Total Revenue	 <u>4,097,400</u>	 <u>4,204,672</u>	 <u>4,212,051</u>	 <u>7,379</u>
EXPENDITURES				
Current:				
General government:				
Administration	570,719	570,719	788,580	(217,861)
Public safety:				
Police	1,650,414	1,650,414	1,707,257	(56,843)
Courts	126,813	126,813	131,144	(4,331)
Fire	183,800	183,800	156,625	27,175
Public works:				
Streets	1,062,962	1,107,701	1,090,441	17,260
Warehouse	105,291	105,291	88,329	16,962
Culture and recreation:				
Parks, recreation & cemetery	295,132	295,132	287,058	8,074
Swimming pool	79,059	79,059	77,602	1,457
Library	248,687	248,687	238,348	10,339
Civic center	25,000	25,000	35,295	(10,295)
Debt Service:				
Principal	207,500	207,500	260,126	(52,626)
Interest and fiscal charges	2,500	2,500	2,254	246
Capital outlay	269,320	331,853	827,136	(495,283)
 Total Expenditures	 <u>4,827,197</u>	 <u>4,934,469</u>	 <u>5,690,195</u>	 <u>(755,726)</u>
 Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ (729,797)</u>	<u>\$ (729,797)</u>	<u>\$ (1,478,144)</u>	<u>\$ (748,347)</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF GATESVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Gain on sale of property	38,000	38,000	23,542	(14,458)
Transfers in	691,797	691,797	1,277,124	585,327
Transfers out	-	-	(5,194)	(5,194)
	<u>729,797</u>	<u>729,797</u>	<u>1,295,472</u>	<u>565,675</u>
Net Change in Fund Balances	-	-	(182,672)	(182,672)
Fund Balances – Beginning	<u>526,266</u>	<u>526,266</u>	<u>526,266</u>	<u>-</u>
Fund Balances – Ending	<u>\$ 526,266</u>	<u>\$ 526,266</u>	<u>\$ 343,594</u>	<u>\$ (182,672)</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GATESVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and investments	\$ 1,149,835	\$ 10,569	\$ 1,160,404
Receivables (net of allowance for uncollectibles):			
Accounts	618,985	-	618,985
Total Current Assets	1,768,820	10,569	1,779,389
Capital Assets:			
Land and improvements	284,339	16,000	300,339
Construction in progress	208,007	-	208,007
Buildings and improvements	55,313,657	365,439	55,679,096
Machinery and equipment	2,013,797	-	2,013,797
Less accumulated depreciation	(29,272,712)	(58,274)	(29,330,986)
Total Capital Assets (Net of Depreciation)	28,547,088	323,165	28,870,253
Total Noncurrent Assets	28,547,088	323,165	28,870,253
Total Assets	\$ 30,315,908	\$ 333,734	\$ 30,649,642
Deferred Outflows of Resources:			
Deferred outflows related to pensions	\$ 249,013	\$ -	\$ 249,013
Total Deferred Outflows of Resources	\$ 249,013	\$ -	\$ 249,013

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF GATESVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2015

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 59,424	\$ 81,914	\$ 141,338
Due to other funds	187,395	-	187,395
Accrued compensated absences	66,200	-	66,200
Refundable meter deposits	250,891	-	250,891
Accrued interest payable	155,857	-	155,857
Note payable - current	300,000	13,126	313,126
Revenue bonds - current	115,000	-	115,000
Certificates of obligation - current	540,000	-	540,000
	<u>1,674,767</u>	<u>95,040</u>	<u>1,769,807</u>
Total Current Liabilities			
Noncurrent Liabilities:			
Net other postemployment benefit obligation	53,477	-	53,477
Net pension liability	962,134	-	962,134
Revenue bonds payable	4,805,000	-	4,805,000
Certificates of obligation	10,358,149	-	10,358,149
	<u>16,178,760</u>	<u>-</u>	<u>16,178,760</u>
Total Noncurrent Liabilities			
	<u>\$ 17,853,527</u>	<u>\$ 95,040</u>	<u>\$ 17,948,567</u>
Total Liabilities			
NET POSITION			
Net investment in capital assets	12,423,888	310,039	12,733,927
Restricted for debt service	1,532,581	-	1,532,581
Unrestricted	(1,245,075)	(71,345)	(1,316,420)
	<u>\$ 12,711,394</u>	<u>\$ 238,694</u>	<u>\$ 12,950,088</u>
Total Net Position			

The accompanying notes are an integral part of the financial statements.

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

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 8,009,109	\$ 41,322	\$ 8,050,431
Other	87,338	61,477	148,815
Total Operating Revenues	<u>8,096,447</u>	<u>102,799</u>	<u>8,199,246</u>
OPERATING EXPENSES			
Personal services	1,959,184	-	1,959,184
Collection	338,681	-	338,681
Utilities	824,668	5,689	830,357
Repairs and maintenance	313,305	233	313,538
Materials and supplies	461,888	4,784	466,672
Cost of sales and services	1,706,756	21,635	1,728,391
Depreciation	1,762,050	17,294	1,779,344
Total Operating Expenses	<u>7,366,532</u>	<u>49,635</u>	<u>7,416,167</u>
Operating Income	<u>729,915</u>	<u>53,164</u>	<u>783,079</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	4,179	-	4,179
Interest expense	(908,976)	-	(908,976)
Miscellaneous expense	(22,318)	-	(22,318)
Total Nonoperating Revenues (Expenses)	<u>(927,115)</u>	<u>-</u>	<u>(927,115)</u>
Income Before Transfers	(197,200)	53,164	(144,036)
Transfers In	1,244,492	-	1,244,492
Transfers Out	(3,397,947)	-	(3,397,947)
Change in Net Position	(2,350,655)	53,164	(2,297,491)
Net Position – Beginning (as Restated see Note I.Q. on page 32)	<u>15,062,049</u>	<u>185,530</u>	<u>15,247,579</u>
Net Position – Ending	<u>\$ 12,711,394</u>	<u>\$ 238,694</u>	<u>\$ 12,950,088</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GATESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 8,015,692	\$ 102,799	\$ 8,118,491
Cash payments to suppliers	(3,377,802)	(24,521)	(3,402,323)
Cash payments to employees	(1,959,184)	-	(1,959,184)
Net Cash Provided By Operating Activities	<u>2,678,706</u>	<u>78,278</u>	<u>2,756,984</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	1,244,492	-	1,244,492
Transfers Out	(3,397,947)	-	(3,397,947)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(2,153,455)</u>	<u>-</u>	<u>(2,153,455)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,062,290)	(76,051)	(1,138,341)
Proceeds from issuance of debt	300,000	-	300,000
Principal Repayments	(625,000)	(33,803)	(658,803)
Interest paid on long-term debt	(911,474)	-	(911,474)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(2,298,764)</u>	<u>(109,854)</u>	<u>(2,408,618)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	4,179	-	4,179
Net Cash Provided (Used) By Investing Activities	<u>4,179</u>	<u>-</u>	<u>4,179</u>
Net Increase (Decrease) in Cash For The Year	(1,769,334)	(31,576)	(1,800,910)
Cash - Beginning	<u>2,919,169</u>	<u>42,145</u>	<u>2,961,314</u>
Cash - Ending	<u>\$ 1,149,835</u>	<u>\$ 10,569</u>	<u>\$ 1,160,404</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GATESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income	\$ 729,915	\$ 53,164	\$ 783,079
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	1,762,050	17,294	1,779,344
Change in Assets and Liabilities:			
(Increase) Decrease in accounts receivable(Net)	(80,755)	-	(80,755)
(Increase) Decrease in deferred outflows in net pension obligation	(249,013)	-	(249,013)
Increase(Decrease) in accounts payable and accrued liabilities	(423,210)	7,820	(415,390)
Increase(Decrease) in interest payable	(1,128)	-	(1,128)
Increase (Decrease) in refundable meter deposits	7,003	-	7,003
Increase (Decrease) in due to other funds	(41,028)	-	(41,028)
Increase (Decrease) in compensated absences	3,037	-	3,037
Increase (Decrease) in net pension obligation	962,134	-	962,134
Increase(Decrease) in net other postemployment benefit obligation	9,701	-	9,701
Total Adjustments	1,948,791	25,114	1,973,905
Net cash Provided By Operating Activities:	\$ 2,678,706	\$ 78,278	\$ 2,756,984

The accompanying notes are an integral part of the financial statements.

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CITY OF GATESVILLE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
SEPTEMBER 30, 2015

	<u>Fireman's Fund</u>
ASSETS	
Cash	\$ 333
Total Assets	<u>\$ 333</u>
LIABILITIES	
Due to beneficiaries	<u>\$ -</u>
Total Liabilities	<u>-</u>
FUND BALANCES	
Restricted for:	
Other	<u>333</u>
Total Fund Balances	<u>333</u>
Total Liabilities and Fund Balances	<u>\$ 333</u>

The accompanying notes are an integral part of the financial statements.

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CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
AGENCY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Fireman's Fund
REVENUES	
Investment earnings	\$ -
Total Revenues	-
 EXPENDITURES	
Retirement payments	1,600
Miscellaneous	-
Total Expenditures	1,600
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,600)
 OTHER FINANCING SOURCES (USES)	
Transfers in	1,620
Total Other Financing Sources (Uses)	1,620
Net Change in Fund Balances	20
Fund Balances – Beginning	313
Fund Balances – Ending	\$ 333

The accompanying notes are an integral part of the financial statements.

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CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gatesville, Texas, a municipal corporation in Coryell County, Texas, was incorporated under the general laws of the State of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities and airport operations.

The financial statements of the City of Gatesville have been prepared to conform with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting and reporting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The City Council, which is elected at large, consists of a mayor and six council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City of Gatesville. The criteria for including organizations as component units within the City's reporting entity include whether 1) the organization is legally separate (can sue and be sued in their own name, 2) the City holds the corporate powers of the organization, 3) the City appoints a voting majority of the organization's board, 4) the City is able to impose its will on the organization, 5) the organization has the potential to impose a financial benefit/burden on the City, and 6) there is fiscal dependency by the organization on the City. There are no component units that qualify for inclusion in the City's reporting entity.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. 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. In the reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Culture and Recreation, etc.) or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

The City's statement of net position includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets.

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. Information on non-major governmental funds is combined in a column labeled "Other Governmental Funds." The nonmajor funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

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 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. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

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 measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue available if collected within 60 days of the end of the current fiscal year. Grant revenues availability period is generally considered to be one year. 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, claims and judgments, are recorded only when the liability has matured and the payment is due.

Property taxes, franchise taxes, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes collected by Coryell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. All other revenue items are considered to be measurable and available only when the City receives the cash.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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 City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Governmental Funds:

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The city reports the following major governmental fund:

General Fund – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

In addition, the city reports the following non-major governmental funds:

Special Revenue Funds – to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fiduciary funds – Agency Funds are used to account for assets held by the City as an agent on behalf of others. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. The City has one Agency Fund: Fireman's Fund.

Proprietary Funds:

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability. The City reports the following major enterprise funds:

Utility Fund – accounts for the distribution of treated water and the collection and treatment of sewage, and solid waste collection activities. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Airport Fund – accounts for hanger rentals and nominal expenses associated with operating the facilities.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, money market fund deposits, balances in public investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

The City is authorized to make investments in accordance with "The Public Funds Investment Act of 1987". The City is also authorized by the Interlocal Cooperation Act, Articles 4413(32c) and 4413(43c), Vernon's Texas Civil Statutes, as amended, to invest in shares of a public funds investment pool. The City's investment policy authorizes certain investments that may be purchased by the City. A detail listing of authorized investments is included in Part IV, Note 1 titled "Deposits and Investments."

Under GASB Statement No. 31, investments are reported at fair value (based on quoted market prices). Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term nonparticipating interest-earning investment contracts (to include certificates of deposit) are reported 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. The term "short-term" refers to investments that have a remaining term of one year or less from date of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The gain/loss resulting from valuation is reported within the revenue account "investment earnings" on the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, and the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds.

The City has implemented GASB Statement No. 40 entitled "Deposit and Investment Risk Disclosures". This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk as well as modifying custodial credit risk disclosures.

E. Receivables and Payables and Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or non-routine transfers of equity between funds – for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds – are accounted for as transfers in the government-wide statements of activities and as capital contributions in the proprietary fund operating statement.

All service and property tax receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 60 days comprise the service accounts receivable allowance for uncollectible. The property tax receivable allowance is based on historical collection rates at the end of the fiscal year.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Ad Valorem Taxes

The City levies property taxes as authorized under state law. The City reports tax revenue on the modified accrual basis, as described previously, net of allowance for uncollectible taxes. In addition, the City has entered into a contractual relationship with Coryell County, Texas, for the collections of all assess property taxes. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

G. Restricted Assets

Certain investments and cash accounts are classified as restricted on the balance sheet because their use is limited to servicing debt, repaying refundable deposits, public safety, culture and recreation, and specific construction projects.

H. Capital Assets

Capital assets (i.e. land, buildings, equipment, improvements other than buildings, which includes the City's infrastructure, and construction in progress) of all funds are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	10-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years
Infrastructure	40 years

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave, which is not vested. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs incurred are fully expensed in that reporting period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Fund Balance Classifications

The difference between assets and liabilities in the governmental fund balance sheet shall be organized into the following classifications:

Nonspendable – Not in a spendable form, such as inventory, or required to be maintained intact such as the principal of a permanent fund. As of September 30, 2015, the City did not have any nonspendable fund balances.

Restricted – Resources that are subject to constraints that are either imposed by law through constitutional provisions or enabling legislation, or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. As of September 30, 2015, the City had restricted funds for economic development, public safety, debt service, capital projects, and culture and recreation.

Committed – Amounts that can only be used for specific purposes determined by formal approval of the Council. These amounts shall not be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it used to commit the amounts. As of September 30, 2015, the City did not have any committed fund balances.

Assigned – Amounts that the City intends to use for a specific purpose and are neither restricted nor committed. The intent to assign amounts for a specific purpose shall be expressed by the Council. As of September 30, 2015, the City did not have any assigned fund balances.

Unassigned – The residual classification for the general fund balance, including amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Use of Restricted, Committed, Assigned, and Unassigned Assets

When the City incurs an expense for which it may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

O. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements:

1. Statement No. 67, "Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25," which replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable for pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.
2. Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts and equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.
3. Statement No. 69, "Government Combinations and Disposals of Government Operations." The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application of the Statement is encouraged.
4. Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.
5. Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68." The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

P. Pensions

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

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Prior Period Adjustments

In the year of implementation of GASB 68, as amended by GASB 71, a restatement to beginning net position will be required for the recording of the beginning net pension liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and beginning of the reporting entity's fiscal year.

Beginning net position as of 12/31/13 has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

Prior Period Adjustment - Implementation of GASB 68:

Governmental Fund

Net Position as of September 30, 2014	\$ 3,801,005
Less Outflow - Contribution as of measurement date 12/31/13	(256,839)
Less Pension Liability as of measurement date 12/31/13	(1,382,465)
Net Position as of September 30, 2014, reinstated	\$ 2,161,701

Enterprise Fund

Net Position as of September 30, 2014	\$ 15,966,101
Less Outflow - Contribution as of measurement date 12/31/13	(123,809)
Less Pension Liability as of measurement date 12/31/13	(594,713)
Net Position as of September 30, 2014, reinstated	\$ 15,247,579

R. Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements includes a deferred outflow of resources for contributions made to the City's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the city's fiscal year, and (2) deferred outflows of resources related to the differences between the expected and actual demographics for the City's single-employer defined benefit fund. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amount related to the actuarial assumptions for demographic factors in the pension fund will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

S. Deferred Inflows of Resources

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's various statements of net position includes (1) a deferred inflow for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense and (2) a deferred inflow of unavailable revenue from uncollected property taxes. The deferred inflow for actual pension plan investment earnings is attributed to pension expense over a total of 5 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$3,634,651 difference are as follows:

Note payable	\$ (597,585)
Bonds payable	(1,365,000)
Compensated absences	(114,909)
Net pension liability	(1,978,180)
Deferred outflows related to pension	480,358
Net postemployment benefit obligation	<u>(59,335)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ (3,634,651)</u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$7,183,044 are as follows:

Land	\$ 636,543
Construction in progress	667,668
Buildings and improvements	5,975,361
Less: Accumulated depreciation	(1,564,058)
Machinery and equipment	3,547,241
Less: Accumulated depreciation	<u>(2,079,711)</u>
Net adjustment to increase fund balance - total government funds to arrive at net position - governmental activities	<u>\$ 7,183,044</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.” The details of this \$1,673,103 difference are as follows:

Capital outlay	\$2,233,099
Depreciation expense	<u>(59,996)</u>
Net adjustment to decrease net changes in fund balances - Total governmental funds to arrive at changes in Net position of governmental activities	<u>\$1,673,103</u>

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONTINUED)**

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$237,768 difference are as follows:

Principal repayments:	
Bond payable	\$135,000
Note payable	<u>102,768</u>
Net adjustment to decrease total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 237,768</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$262 difference are as follows:

Compensated absences	\$ 10,502
OPEB expense	<u>(10,764)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (262)</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital project fund. The capital projects fund is budgeted in a multi-year manner. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The City’s department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. The budget was approved September 9, 2014.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Gatesville to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition it includes an "investment strategy statement" that specifically addresses each fund's investment strategy and maximum maturity of each fund's individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law. The City is in substantial compliance with the requirements of the Public Funds Investment Act and with local policies.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificates of deposit or share certificates at commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance.
2. A savings account issued by a depository institution that has its main office or a branch office in the State of Texas and meets the collateralization requirements as stated in the City's depository contract.
3. Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) if the City Council by resolution authorized investment in that particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
4. Direct obligations of the United States Government, which have a final maturity date of two years or less from the date of purchase.
5. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
6. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent.

Under the City investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, and any other investment instrument that is not specifically listed as an authorized investment.

CITY OF GATESVILLE

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

The City has invested in TexPool Investment Pool, a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. TexPool Investment Pool's Liquidity Plus Fund uses a dollar weighted average maturity of 120 days or fewer and the net asset value of the shares invested are expected to maintain a net asset value of approximately \$1. The net asset value of the shares invested in the fund do not fluctuate based on the fund's current market value.

The City does not own specific, identifiable investments with TexPool Investment Pool. The City considers the holdings in these pools to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Deposits – Custodial credit risk for deposits is the risk in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized with securities held by the City or its agent in the City's name or by the pledging financial institution's trust department or agent in the City's name at September 30, 2015.

At September 30, 2015, the carrying amount of the City's deposits was \$1,520,483, and the respective bank balances totaled \$1,520,483. Of the bank balances, \$250,000 was covered by federal depository insurance. Collateral for the bank balances over the federal depository insurance amount consisted of securities with a fair market value of \$7,412,245 at September 30, 2015.

Investments – Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment policy requires that securities be insured and registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City's name, and all securities are registered in the City's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with which the City will transact, portfolio diversification, and limiting maturity.

The following table includes the portfolio balances of all investment types of the City at September 30, 2015.

	<u>Fair Value/Carrying Value</u>			<u>Weighted Average</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Cost</u>	
				<u>Days to Maturity (1)</u>	
Investments:					
Local government investment pools:					
TexPool Investment Pool	-	-	-	-	1
Total local government investment pools	-	-	-	-	

(1) Interest rate risk is estimated using weighted average days to maturity.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

As of September 30, 2015, the City of Gatesville's investments were rated by Standard & Poor's as follows:

	Average Credit Quality/ <u>Ratings</u>
TexPool Investment Pool	AAAm

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

Cash on hand	\$ 1,200
Carrying amount of deposits	1,520,483
Carrying amount of investments	<u>-</u>
 Total Cash and Investments	 <u>\$ 1,521,683</u>

2. Receivables

Receivables as of September 30, 2015, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectibles accounts, consist of the following:

	General	Water and Sewer	Airport	Total
Receivables:				
Account, net of allowance	\$402,514	\$618,985	-	\$1,021,499
Taxes, net of allowance	27,400	-	-	27,400
	<u>\$429,914</u>	<u>\$618,985</u>	<u>-</u>	<u>\$1,048,899</u>

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets

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

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 596,733	\$ 55,810	\$ (16,000)	\$ -	\$ 636,543
Construction in progress	292,695	394,897	(19,924)	-	667,668
Total assets not being depreciated	<u>889,428</u>	<u>450,707</u>	<u>(35,924)</u>	<u>-</u>	<u>1,304,211</u>
Capital assets, being depreciated:					
Buildings and improvements	4,893,473	1,081,888	-	-	5,975,361
Machinery and equipment	3,311,270	251,603	(15,632)	-	3,547,241
Total capital assets being depreciated	<u>8,204,743</u>	<u>1,333,491</u>	<u>(15,632)</u>	<u>-</u>	<u>9,522,602</u>
Less accumulated depreciation:					
Buildings and improvements	1,704,612	173,991	(314,545)	-	1,564,058
Machinery and equipment	1,774,862	386,005	(81,156)	-	2,079,711
Total accumulated depreciation	<u>3,479,474</u>	<u>559,996</u>	<u>(395,701)</u>	<u>-</u>	<u>3,643,769</u>
Total capital assets being depreciated, net	<u>4,725,269</u>	<u>773,495</u>	<u>380,069</u>	<u>-</u>	<u>5,878,833</u>
Governmental activities capital assets, net	<u>\$ 5,614,697</u>	<u>\$ 1,224,202</u>	<u>\$ 344,145</u>	<u>\$ -</u>	<u>\$ 7,183,044</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 278,661	\$ 21,678	\$ -	\$ -	\$ 300,339
Construction in progress	2,340,919	563,155	(2,696,067)	-	208,007
Total assets not being depreciated	<u>2,619,580</u>	<u>584,833</u>	<u>(2,696,067)</u>	<u>-</u>	<u>508,346</u>
Capital assets, being depreciated:					
Buildings and improvements	53,366,012	2,889,675	(576,591)	-	55,679,096
Machinery and equipment	1,384,160	629,637	-	-	2,013,797
Total capital assets being depreciated	<u>54,750,172</u>	<u>3,519,312</u>	<u>(576,591)</u>	<u>-</u>	<u>57,692,893</u>
Less accumulated depreciation:					
Buildings and improvements	26,221,644	1,867,881	-	-	28,089,525
Machinery and equipment	934,299	307,162	-	-	1,241,461
Total accumulated depreciation	<u>27,155,943</u>	<u>2,175,043</u>	<u>-</u>	<u>-</u>	<u>29,330,986</u>
Total capital assets being depreciated, net	<u>27,594,229</u>	<u>1,344,269</u>	<u>(576,591)</u>	<u>-</u>	<u>28,361,907</u>
Business-type activities capital assets, net	<u>\$ 30,213,809</u>	<u>\$ 1,929,102</u>	<u>\$ (3,272,658)</u>	<u>\$ -</u>	<u>\$ 28,870,253</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Cultural and recreation	\$ 93,532
Public safety	189,906
General government	99,542
Public works	<u>187,016</u>
Total depreciation expense – governmental activities	<u>\$ 559,996</u>
Business-type Activities:	
Water and sewer	\$ 2,159,651
Airport	<u>15,392</u>
Total depreciation expense – business-type activities	<u>\$ 2,175,043</u>

4. Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2015 consisted of the following:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 187,395
Total		<u>\$ 187,395</u>

Transfers between funds:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Water and Sewer Fund	\$ 2,153,455	\$ -
Non Major Government Fund	59,111	-
Agency Fund	-	1,620
Water and Sewer Fund		
General Fund	-	2,153,455
Non Major Government Fund		
General Fund	-	59,111
Agency Fund		
General Fund	1,620	-
	<u>\$ 2,214,186</u>	<u>\$ 2,214,186</u>

Eliminations

Interfund receivables, payables, and transfers are reported in the governmental and proprietary fund financial statements. In the entity-wide statements, interfund receivables, payables, and transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Agency Fund are for payments.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Long-term Debt

At September 30, 2015, long-term debt of the City consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,500,000	\$ -	\$ (135,000)	\$ 1,365,000	\$ 140,000
Compensated absences	125,411	112,084	(122,586)	114,909	50,834
Note payable	700,353	-	(102,768)	597,585	162,043
Net pension liability	1,747,067	597,948	(366,835)	1,978,180	-
Net OPEB obligation	48,571	10,764	-	59,335	-
Total governmental activities	<u>\$ 4,121,402</u>	<u>\$ 720,796</u>	<u>\$ (727,189)</u>	<u>\$ 4,115,009</u>	<u>\$ 352,877</u>
Business-type activities:					
Certificates of obligations	\$ 11,420,000	\$ -	\$ (515,000)	\$ 10,905,000	\$ 540,000
Discount	(6,851)	-	-	(6,851)	-
Revenue bonds	5,030,000	-	(110,000)	4,920,000	115,000
Compensated absences	63,163	65,866	(62,829)	66,200	66,200
Note payable	46,929	300,000	(33,803)	313,126	313,126
Net pension liability	842,331	309,278	(189,475)	962,134	-
Net OPEB obligation	43,776	9,701	-	53,477	-
Total business-type activities	<u>\$ 17,439,348</u>	<u>\$ 684,845</u>	<u>\$ (911,107)</u>	<u>\$ 17,213,086</u>	<u>\$ 1,034,326</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

Future governmental debt service requirements are as follows:

Year Ended	Governmental Activities					
	General Obligation Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
September 30,						
2016	\$ 140,000	\$ 28,361	\$ 168,361	\$ 162,043	\$ 20,395	\$ 182,438
2017	140,000	25,294	165,294	70,375	15,389	85,764
2018	145,000	22,174	167,174	61,723	13,942	75,665
2019	150,000	18,944	168,944	39,139	10,191	49,330
2020	150,000	15,658	165,658	39,139	8,642	47,781
2021-2024	640,000	28,360	668,360	225,166	17,985	243,151
	<u>\$ 1,365,000</u>	<u>\$ 138,791</u>	<u>\$ 1,503,791</u>	<u>\$ 597,585</u>	<u>\$ 86,544</u>	<u>\$ 684,129</u>

The General Obligation Refunding Bonds, Series 2013, were issued to make improvements to the streets and public works of the City. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 1999, were issued to make improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Long-term Debt (continued)

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2007, were issued to make improvements and extensions to Fort Hood. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2011, were issued to make improvements and extensions to the City's combined Waterworks and Sanitary Sewer System. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The Utility System Revenue Bonds, Taxable Series 2008, were issued to make improvements and extensions to the City's combined Waterworks and Sanitary Sewer System. They were also use to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

Future business-type debt service requirements are as follows:

Year Ended September 30	Business-type Activities					
	Certificates of Obligation and Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 655,000	\$ 877,581	\$ 1,532,581	\$ 313,126	\$ 7,721	\$ 320,847
2017	695,000	841,868	1,536,868	-	-	-
2018	730,000	804,405	1,534,405	-	-	-
2019	560,000	765,715	1,325,715	-	-	-
2020	595,000	736,988	1,331,988	-	-	-
2021-2025	3,525,000	3,178,545	6,703,545	-	-	-
2026-2030	3,980,000	2,110,062	6,090,062	-	-	-
2031-2035	4,110,000	1,019,425	5,129,425	-	-	-
2036	975,000	56,285	1,031,285	-	-	-
	<u>\$ 15,825,000</u>	<u>\$ 10,390,874</u>	<u>\$ 26,215,874</u>	<u>\$ 313,126</u>	<u>\$ 7,721</u>	<u>\$ 320,847</u>

6. Ad Valorem Taxes

Property taxes are assessed and collected by the Tax Appraisal District of Coryell County. The tax calendar is as follows:

- Levy date: October 1 of the tax year
- Due date: January 31 of year following the tax year, without penalty
- Collection date: Beginning in October of the tax year
- Lien date: January 1 of the tax year

The effective tax rate during fiscal year ended September 30, 2015, was \$0.41 per \$100 valuation.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

7. Texas Department of Corrections Water Service Contracts

The City has an agreement to supply water and sewer disposal for the Texas Department of Corrections. The cost of water and sewer services to the Texas Department of Corrections is based on 1) charges for raw water supplied, 2) operation and maintenance charges based on volume and 3) an allocation of total construction costs. Payments for these charges began in March of 1990, and the monthly charges for these items are as follows:

	<u>Water</u>	<u>Sewer</u>
Mountainview, Hilltop and Gatesville Units	\$2.30 per 1,000 Base charge: \$20	\$1.97 per 1,000 Base charge: None
Huges Unit	#1 - \$2.30 per 1,000 Base charge: \$20	\$1.97 per 1,000 Base Charge: None
	#2 - \$2.30 per 1,000 Base charge: \$20	
Woodman and Murry Units	#1 - \$1.39 per 1,000	\$.61 per 1,000
	#2 - \$1.39 per 1,000	\$.61 per 1,000

V. OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts: theft; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML for its general insurance coverage, real and personal property coverage, liability coverage, and workers compensation coverage. The agreement for formation for TML provides that TML will be self-sustaining through member premiums.

2. Employee Benefit Plans

Texas Municipal Retirement System Plan

Plan Description

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

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

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Benefits Provided

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

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

Upon retirement, benefits depend upon the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At inception, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	23
Active employees	74

Contributions

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

Employees for the City of Gatesville were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Gatesville were 15.40% and 15.67% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$547,508, and were equal to the required contributions.

Net Pension Liability

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

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Actuarial assumptions

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Changes in the Net Pension Liability	Increase (Decrease)		Net Pension Liability (a)-(b)
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	
Balance at 12/31/2013	14,711,629	12,122,231	2,589,398
Changes for the year:			
Service cost	506,716	-	506,715
Interest	1,029,818	-	1,029,818
Change in benefit terms			
Difference between expected and actual experience	264,700	-	264,700
Changes of assumptions			
Contributions – employer		527,696	(527,696)
Contributions – employee		236,938	(236,938)
Net investment income		1,573,307	(1,573,307)
Benefit payments, including refunds of employee contributions	(506,596)	(506,596)	-
Administrative expense		(7,240)	7,240
Other changes		(595)	595
Net changes	1,294,638	943,722	350,916
Balance at 12/31/2014	16,006,267	13,065,953	2,940,314

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

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$5,217,720	\$2,940,314	\$1,077,308

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

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

For the year ended the September 30, 2015, the recognized pension expense of \$549,671.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 124,030	
Changes in actuarial assumptions		
Difference between projected and actual investment earnings	204,911	
Contributions subsequent to the measurement date	400,460	
Total	\$ 729,401	-

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

\$400,460 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2016	90,796
2017	90,796
2018	56,553
2019	
2020	
Thereafter	

Additional schedule of funding progress for TMRS can be found in the required supplementary information on page 51.

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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 provide 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 the employees' entire careers.

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.

Schedule of Contributions Rates:
 (Retiree-only portion of the rate)

Calendar Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
2012	0.05%	0.06%	100.0%
2013	0.06%	0.06%	100.0%
2014	0.06%	0.06%	100.0%
2015	0.06%	0.06%	100.0%

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Plan Description

In addition to the pension benefits described in Note V.2. as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City according to the terms of the City's current health plan. The full cost of the coverage is paid by the retiree, with the rates being the same as an active employee.

3. Postemployment Benefits Other than Pensions

The following table shows the components of the City's annual other postemployment benefit (OPEB) cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Net OPEB Obligation:

Annual required contribution	\$ 22,795
Interest on net OPEB obligation	3,402
Adjustment to annual required contribution	<u>(3,152)</u>
Annual OPEB cost	23,045
Contributions made	<u>(2,580)</u>
Increase in net OPEB obligation	20,465
Net OPEB obligation, beginning of year	<u>92,347</u>
Net OPEB obligation, end of the year	<u>\$ 112,812</u>

Trend information is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOC)	Employer Contributions	Percentage of AOC Contributed	Net OPEB Obligation
2012	\$25,763	\$6,095	23.7%	* \$56,379
2013	\$22,317	\$3,101	13.9%	\$75,595
2014	\$23,045	\$6,293	27.3%	\$92,347
2015	\$20,465	\$2,580	12.61%	\$112,812

Additional schedule of funding progress for Other Postemployment Benefit can be found in the required supplementary information on page 52.

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		12/31/12
Actuarial Value of Assets	(A)	\$ 0
Actuarial Accrued Liability	(B)	\$ 218,321
Percentage Funded	(C) = (A) / (B)	0%
Unfunded (Overfunded)		
Actuarial Accrued Liability (UAAL)	(D) = (B) - (A)	\$ 218,321
Annual Covered Payroll	(E)	\$ 3,094,512
UAAL as a Percentage of Covered Payroll	(D) / (E)	7.1%

The actuarial accrued liability of \$218,321 includes \$218,321 for active employees and \$0 for retirees. There are no current retirees on the health care plan.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (continued)

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2010 actuarial valuation, the unit credit method was used. The actuarial assumptions include a three percent investment rate of return, which is a blended rate of expected long-term investment returns on plan assets and the City's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of ten percent initially, reduced by decrements to an ultimate rate of five percent after ten years. The City's unfunded actuarial accrued liability is being amortized as a level dollar of active member payroll over a 30 year closed period. The actuarial assumptions presented here are as follows in the chart form:

The actuarial valuation information is as follows:

Actuarial Methods and Assumptions

Inflation rate	3.00% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll Growth	3.00% per annum
Healthcare cost trend rate	Initial rate of 7.50% declining to an ultimate Rate of 4.50% after 8 years

4. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF GATESVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30 2015
(UNAUDITED)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS (will ultimately be displayed)

	2014
Total pension liability	
Service Cost	\$ 506,716
Interest (on the Total Pension Liability)	1,029,818
Changes of benefit terms	-
Difference between expected and actual experience	264,700
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(506,596)
Net Change in Total Pension Liability	1,294,638
Total Pension Liability - Beginning	14,711,629
Total Pension Liability - Ending (a)	\$ 16,006,267
Plan fiduciary Net Position	
Contributions - Employer	\$ 527,696
Contributions - Employee	236,938
Net Investment Income	693,519
Benefit payments, including refunds of employee contributions	(506,596)
Administrative Expense	(7,240)
Other	(595)
Net Change in Plan Fiduciary Net Position	\$ 943,722
Plan Fiduciary Net Position - Beginning	12122231
Plan Fiduciary Net Position - Ending (b)	\$ 13,065,953
Net Pension Liability - Ending (a) - (b)	\$ 2,940,314
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.63%
Covered Employee Payroll	\$ 3,384,835
Net Pension Liability as a Percentage of Covered Employee Payroll	86.87%

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CITY OF GATESVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS (will ultimately be displayed)

	2014
Actuarially Determined Contribution	\$ 520,149
Contributions in relation to the actuarially determined contribution	547,508
Contribution deficiency (excess)	\$ (27,359)
Covered employee payroll	\$ 3,317,279
Contributions as a percentage of covered employee payroll	16.50%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 year smoothed marked; 15% soft corridor
Inflation	3.0%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

Other Information:

Notes: There were no benefit changes during the year.

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**COMBINING
FUNDS STATEMENTS**

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CITY OF GATESVILLE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Motel/Hotel Occupancy Tax</u>	
ASSETS		
Cash and investments	\$ 22,012	\$ 22,012
Total Assets	\$ 22,012	\$ 22,012
LIABILITIES		
Accounts payable	\$ -	\$ -
Total Liabilities	-	-
FUND BALANCES		
Restricted for:		
Other	22,012	22,012
Total Fund Balances	22,012	22,012
Total Liabilities and Fund Balances	\$ 22,012	\$ 22,012

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CITY OF GATESVILLE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Motel/Hotel Occupancy Tax</u>	
REVENUES		
Occupancy taxes	\$ 107,850	\$ 107,850
Investments	118	118
Contributions and donations	19,012	19,012
	<u>126,980</u>	<u>126,980</u>
Total Revenues		
EXPENDITURES		
Culture and recreation	51,042	51,042
	<u>51,042</u>	<u>51,042</u>
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>75,938</u>	<u>75,938</u>
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	(59,111)	(59,111)
	<u>(59,111)</u>	<u>(59,111)</u>
Total other financing sources (uses)		
NET CHANGE IN FUND BALANCES	16,827	16,827
FUND BALANCES , BEGINNING	<u>5,185</u>	<u>5,185</u>
FUND BALANCES, ENDING	<u>\$ 22,012</u>	<u>\$ 22,012</u>

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OTHER SCHEDULES

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CITY OF GATESVILLE, TEXAS

SCHEDULE OF INSURANCE COVERAGE

SEPTEMBER 30, 2015

(UNAUDITED)

<u>NAME OF INSURER</u>	<u>CONTRACT NUMBER</u>	<u>LIMITS</u>	<u>COVERAGE</u>	<u>EXP. DATE</u>
Texas Municipal League	2180	\$3,000,000/ occurrence \$500/deductible occurrence	Auto Liability	10/1/2015
Texas Municipal League	2180	\$1,000,000/ occurrence/ \$2,000,000/ annual aggregate \$0 deductible/ occurrence/	General Liability	10/1/2015
Texas Municipal League	2180	\$5,000,000 each claim/\$10,000,000 annual aggregate/ \$5,000 deductible occurrence	Public officials and employee liability errors and omissions	10/1/2015
Texas Municipal League	2180	\$3,000,000 each occurrence/ \$6,000,000 annual aggregate/\$5,000 deductible	Law enforcement liability	10/1/2015

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CITY OF GATESVILLE, TEXAS

SCHEDULE OF INSURANCE COVERAGE
(Continued)

SEPTEMBER 30, 2015

(UNAUDITED)

<u>NAME OF INSURER</u>	<u>CONTRACT NUMBER</u>	<u>LIMITS</u>	<u>COVERAGE</u>	<u>EXP. DATE</u>
Texas Municipal League	2180	\$500/deductible per vehicle/ \$10,000 per occurrence/limit varies-dependent on carrying value	Auto physical damage	10/1/2015
Texas Municipal League	2180	\$2,000,000/aggregate \$0 deductible	General Liability hazards	10/1/2015
Texas Municipal League	2180	\$5,000,000/occurrence \$0 deductible	Chartered non-owned aircraft liability	10/1/2015
Texas Municipal League	2180	\$24,969,250 coverage limit/ \$2,500 deductible \$1,000,000 transit limit	Real and personal property	10/1/2015
Texas Municipal League	2180	\$2,600,000 coverage limit/\$2,500 deductible	Mobile equipment	10/1/2015
Texas Municipal League	2180	\$1,097,186 coverage limit/ \$2,500 deductible	Boiler and machinery	10/1/2015

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CITY OF GATESVILLE, TEXAS

SCHEDULE OF CUSTOMERS

WATER AND SEWER ENTERPRISE FUND

SEPTEMBER 30, 2015

(UNAUDITED)

Active water connections	3,178 customers
Active sewer connections	2,895 customers

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COMPLIANCE SECTION

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Lott, Vernon & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Ronald E. Stepp, CPA
Jerry D. Tyroch Jr., CPA
Dane Legg, CPA
Deborah K. Hershberger, CPA

**INDEPENDENT AUDITOR'S 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***

To the Honorable Mayor and
Members of the City Council
City of Gatesville, Texas

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Lott, Vernon & Co., P.C." in a cursive script.

Lott, Vernon & Company P.C.
Killeen, Texas
January 30, 2016