

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
CITY OF GUN BARREL CITY, TEXAS
SEPTEMBER 30, 2015**

**CITY OF GUN BARREL CITY, TEXAS
SEPTEMBER 30, 2015**

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FINANCIAL SECTION

HENRY & PETERS, PC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Gun Barrel City, Texas

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gun Barrel City, Texas (City), 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gun Barrel City, Texas, as of September 30, 2015, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 12 to the financial statements, in 2015 the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information on pages 3-8, and 37-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gun Barrel City, Texas' financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor 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 schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Henry + Peters, P.C.

Tyler, Texas
April 14, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

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**City of Gun Barrel City, Texas
Management's Discussion and Analysis
September 30, 2015**

The discussion and analysis of the City of Gun Barrel City's (City) financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2015. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ending September 30, 2015 by \$8,877,421 (net position). The total net position increased by \$498,770 during the year. Of the total net position, \$2,322,278 (unrestricted net position) may be used to meet the governments' ongoing obligations to citizens and creditors.
- Unrestricted net position increased by \$203,624 during the fiscal year.
- As of September 30, 2015, the City's governmental funds reported combined ending fund balances of \$3,361,613, an increase of \$316,439 in comparison with the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and 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 of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, levied but uncollected taxes and earned but unused compensated absences). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

The governmental activities of the City include mayor and council, administration, city secretary, treasurer, municipal court, municipal buildings, police protection, code enforcement, building inspections, fire protection, streets, parks, animal control and economic development.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation (Corporation) for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. Complete financial statements for the Corporation may be obtained at the Corporation's administrative office.

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 are governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund which is considered to be a major fund. Data from eleven other 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 statements at the end of this report.

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. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparison information and net pension liability information.

The combining and individual nonmajor fund statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

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 \$8,877,421 as of September 30, 2015.

A large portion of the City's net position (62%) reflects its investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities	
	2015	2014
Current and other assets	\$ 3,644,979	\$ 3,322,000
Capital assets	6,699,532	6,634,156
Total assets	<u>10,344,511</u>	<u>9,956,156</u>
Deferred outflows related to pensions	99,820	-
Total deferred outflows of resources	<u>99,820</u>	<u>-</u>
Long-term liabilities outstanding	1,356,558	1,324,772
Other liabilities	205,786	258,886
Total liabilities	<u>1,562,344</u>	<u>1,583,658</u>
Deferred inflows related to pensions	4,566	-
Total deferred inflows of resources	<u>4,566</u>	<u>-</u>
Net position:		
Net investment in capital assets	5,531,885	5,380,318
Restricted	1,023,258	873,526
Unrestricted	2,322,278	2,118,654
Total net position	<u>\$ 8,877,421</u>	<u>\$ 8,372,498</u>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position.

Operations

The following table provides a summary of the City's operations.

	Governmental Activities	
	2015	2014
Revenues:		
Program Revenues:		
Charges for services	\$ 281,862	\$ 305,462
Operating grants and contributions	15,809	20,705
Capital grants and contributions	311,560	18,450
General revenues:		
Sales tax	2,979,506	2,803,227
Franchise tax	392,792	337,630
Hotel occupancy tax	85,425	136,210
Alcoholic beverage tax	35,601	32,766
Investment earnings	6,093	6,317
Miscellaneous	165,263	182,352
	<u>4,273,911</u>	<u>3,843,119</u>
Expenses:		
Mayor and council	6,031	4,940
Administration	472,807	499,369
City secretary	87,138	84,345
Treasurer	79,431	75,718
Municipal court	115,465	117,392
Municipal buildings	64,970	76,568
Police protection	1,162,227	1,192,026
Code enforcement	103,210	114,239
Building inspections	112,559	106,522
Fire protection	419,927	443,487
Streets	747,364	716,531
Parks	154,832	165,512
Animal control	52,378	60,615
Economic development	149,264	97,279
Interest on long-term debt	47,538	50,368
Total expenses	<u>3,775,141</u>	<u>3,804,911</u>
Increase in net position	498,770	38,208
Net position, beginning	8,372,498	8,334,290
Prior period adjustments	6,153	-
Net position, ending	<u>\$ 8,877,421</u>	<u>\$ 8,372,498</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental 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 fiscal year, the City’s governmental funds reported combined ending balances of \$3,361,613. Approximately 64% of this total amount, \$2,160,715 constitutes unassigned fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted for (1) culture and recreation in the amount of \$223,612, (2) public safety in the amount of \$127,592, and (3) streets in the amount of \$672,054, committed for debt service in the amount of \$131,461, and assigned for economic development in the amount of \$46,179.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance and total fund balance of the general fund was \$2,160,715 and \$3,010,409, respectively. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 62% of the total general fund expenditures, while total fund balances represents 87% of that same amount.

The fund balance of the City’s general fund increased \$320,787 during the current fiscal year.

General Fund Budgetary Highlights – Amendments to the original budget were approved by Council on June 23, 2015.

General fund actual revenues of \$3,286,726 exceeded budgeted revenues of \$3,253,317 by \$33,409. Following are the main components that experienced an increase of actual revenues compared to budgeted revenues.

- The \$12,639 increase in franchise tax.
- The \$18,020 increase in licenses and permits revenue.

General fund budgeted expenditures of \$3,253,317 exceeded actual expenditures of \$3,234,096 by \$19,221. Following are the main components that experienced a decrease of actual expenditures compared to budgeted expenditures.

- The \$21,852 decrease in administration expenses.

CAPITAL ASSETS

The City’s investment in capital assets for its governmental activities as of September 30, 2015 amounts to \$6,699,532 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- \$540,805 in additions to infrastructure.

	Government Activities	
	2015	2014
Land	\$ 371,086	\$ 371,086
Construction in progress	24,303	34,232
Buildings	2,845,410	2,823,110
Machinery and equipment	3,026,384	2,974,220
Infrastructure	5,029,175	4,488,370
Less: Accumulated Depreciation	(4,596,826)	(4,056,862)
Totals	<u>\$6,699,532</u>	<u>\$6,634,156</u>

Additional information on the City of Gun Barrel City capital assets can be found in Note 4 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had the following debt:

	Government Activities	
	2015	2014
Note payable	\$1,053,763	\$1,087,183
Capital lease	113,884	166,655
Compensated absences	67,583	70,934
Net pension liability	121,428	100,036
Totals	<u>\$1,356,658</u>	<u>\$1,424,808</u>

Additional information on the City of Gun Barrel City long-term debt can be found in Note 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the 2015-2016 Budget, General Fund revenues are budgeted to increase by 1% from the 2014-2015 budget year with sales and use taxes making up about 78% of general fund budgeted revenues. The budget reviewed by department heads and the finance department will continue the efforts to practice good management practices, such as to provide the best service at the least cost.

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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 1716 W. Main Street, Gun Barrel City, Texas 75147.

Separately issued financial reports are available for the discretely presented component unit, the Gun Barrel City Economic Development Corporation. This report may be obtained by contacting the following office.

Gun Barrel City Economic Development Corporation
1720 W. Main Street
Gun Barrel City, Texas 75147

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CITY OF GUN BARREL CITY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit</u>
ASSETS		
Cash and cash equivalents	\$ 2,278,736	\$ 1,391,841
Investments	390,215	3,512
Receivables (net of allowance for estimated uncollectible accounts):	976,028	80,779
Due from primary government	-	72,633
Land held for resale		456,131
Capital assets		
Non-depreciable	395,389	325,711
Depreciable (net of accumulated depreciation)	6,304,143	1,153
Total assets	<u>10,344,511</u>	<u>2,331,760</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	<u>99,820</u>	<u>-</u>
LIABILITIES		
Accounts payable and other current liabilities	115,061	19,377
Accrued interest	5,268	-
Due to other governments	12,724	-
Due to component unit	72,633	-
Noncurrent liabilities		
Due within one year	157,727	-
Due in more than one year	1,198,931	-
Total liabilities	<u>1,562,344</u>	<u>19,377</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	<u>4,566</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	5,531,885	326,864
Restricted for:		
Culture and recreation	223,612	-
Public safety	127,592	-
Streets	672,054	-
Unrestricted	2,322,278	1,985,519
Total net position	<u>\$ 8,877,421</u>	<u>\$ 2,312,383</u>

See accompanying notes to financial statements.

**CITY OF GUN BARREL CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
Functions/Programs						
Primary Government:						
Governmental activities:						
Mayor and council	\$ 6,031	\$ -	\$ -	\$ -	\$ (6,031)	\$ -
Administration	472,807	13,175	-	-	(459,632)	-
City secretary	87,138	-	-	-	(87,138)	-
Treasurer	79,431	-	-	-	(79,431)	-
Municipal court	115,465	-	-	-	(115,465)	-
Municipal buildings	64,970	-	-	-	(64,970)	-
Police protection	1,162,227	170,518	4,180	-	(987,529)	-
Code enforcement	103,210	98,169	-	-	(5,041)	-
Building inspections	112,559	-	-	-	(112,559)	-
Fire protection	419,927	-	11,629	-	(408,298)	-
Streets	747,364	-	-	311,560	(435,804)	-
Parks	154,832	-	-	-	(154,832)	-
Animal control	52,378	-	-	-	(52,378)	-
Economic development	149,264	-	-	-	(149,264)	-
Interest and fiscal charges	47,538	-	-	-	(47,538)	-
Total Primary Government	\$ 3,775,141	\$ 281,862	\$ 15,809	\$ 311,560	\$ (3,165,910)	\$ -
Component Unit:						
Gun Barrel City Economic Development Corp.	175,124	-	-	-	-	(175,124)
Total Component Units	\$ 175,124	\$ -	\$ -	\$ -	\$ -	\$ (175,124)
General Revenues:						
Taxes:						
Sales					2,979,506	425,644
Franchise					392,792	-
Hotel occupancy					85,425	-
Alcoholic beverage					35,601	-
Investment earnings					6,093	5,163
Miscellaneous					165,263	-
Total general revenues					3,664,680	430,807
Change in net position					498,770	255,683
Net position - beginning of year					8,372,498	2,056,700
Prior period adjustments (Note 12)					6,153	-
Net position - end of year					\$ 8,877,421	\$ 2,312,383

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

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**CITY OF GUN BARREL CITY, TEXAS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2015**

	General	Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,927,516	\$ 351,220	\$ 2,278,736
Investments	390,215	-	390,215
Receivables (net of allowance for estimated uncollectible accounts)	947,869	28,159	976,028
Total assets	<u>\$ 3,265,600</u>	<u>\$ 379,379</u>	<u>\$ 3,644,979</u>
LIABILITIES			
Accounts payable and other current liabilities	114,540	521	115,061
Due to other governments	12,724	-	12,724
Due to component unit	72,633	-	72,633
Total liabilities	<u>199,897</u>	<u>521</u>	<u>200,418</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	930	-	930
Unavailable revenue - municipal court	54,364	-	54,364
Unavailable revenue - hotel occupancy tax	-	27,654	27,654
Total deferred inflows of resources	<u>55,294</u>	<u>27,654</u>	<u>82,948</u>
FUND BALANCES			
Restricted for:			
Culture and recreation	-	223,612	223,612
Public safety	-	127,592	127,592
Streets	672,054	-	672,054
Committed to:			
Debt service	131,461	-	131,461
Assigned to:			
Economic development	46,179	-	46,179
Unassigned	2,160,715	-	2,160,715
Total fund balances	<u>3,010,409</u>	<u>351,204</u>	<u>3,361,613</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,265,600</u>	<u>\$ 379,379</u>	<u>\$ 3,644,979</u>

See accompanying notes to financial statements.

**CITY OF GUN BARREL CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

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

Total fund balance per balance sheet	\$ 3,361,613
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	6,699,532
Some of the City's revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and therefore are not reported in the governmental funds balance sheet.	82,948
Deferred inflows and outflows related to net pensions do not require current financial resources and therefore are not reported in the governmental funds balance sheet.	95,254
Long-term liabilities, including bonds payable, notes payable, compensated absences, and net pension liability, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	
Due within one year	(157,727)
Due in more than one year	(1,198,931)
Interest payable on long-term debt in the City's governmental activities is not payable from current resources and therefore is not reported in the governmental funds balance sheet.	<u>(5,268)</u>
Net position of governmental activities	<u><u>\$ 8,877,421</u></u>

See accompanying notes to financial statements.

**CITY OF GUN BARREL CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	General	Non-major Funds	Total Governmental Funds
REVENUES			
Taxes:			
Sales	\$ 2,979,506	\$ -	\$ 2,979,506
Franchise	392,792	-	392,792
Hotel occupancy	-	79,605	79,605
Alcoholic beverage	35,601	-	35,601
Licenses and permits	98,169	-	98,169
Fines and forfeitures	149,323	9,166	158,489
Charges for current services	13,175	-	13,175
Revenues from use of money and property	5,389	704	6,093
Other revenues	110,667	54,596	165,263
Intergovernmental	18,536	297,953	316,489
Contributions and donations	-	10,880	10,880
Total revenues	<u>3,803,158</u>	<u>452,904</u>	<u>4,256,062</u>
EXPENDITURES			
Current (operating):			
Mayor and council	6,031	-	6,031
Administration	389,891	-	389,891
City secretary	90,092	-	90,092
Treasurer	79,051	-	79,051
Municipal court	109,677	5,498	115,175
Municipal buildings	68,472	-	68,472
Police protection	1,107,345	4,042	1,111,387
Code enforcement	104,166	-	104,166
Building inspections	109,940	-	109,940
Fire protection	350,516	22,603	373,119
Streets	776,343	295,304	1,071,647
Parks	91,347	200	91,547
Animal control	52,924	-	52,924
Economic development	-	139,651	139,651
Public enhancement	3,244	-	3,244
Debt service:			
Principal	86,192	-	86,192
Interest and fiscal charges	47,094	-	47,094
Total expenditures	<u>3,472,325</u>	<u>467,298</u>	<u>3,939,623</u>
Excess (deficiency) of revenues over (under) expenditures	<u>330,833</u>	<u>(14,394)</u>	<u>316,439</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	10,046	10,046
Transfers out	(10,046)	-	(10,046)
Total other financing sources (uses)	<u>(10,046)</u>	<u>10,046</u>	<u>-</u>
Net change in fund balance	320,787	(4,348)	316,439
Fund balance - beginning of year	<u>2,689,622</u>	<u>355,552</u>	<u>3,045,174</u>
Fund balance - end of year	<u>\$ 3,010,409</u>	<u>\$ 351,204</u>	<u>\$ 3,361,613</u>

See accompanying notes to financial statements.

**CITY OF GUN BARREL CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2015**

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

Net change in fund balance - total governmental funds	\$	316,439
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 of capital outlay recorded as capital assets in the current year.		605,340
Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.		(539,964)
Governmental funds report all payments for pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined. This amount is the total of the increase in the net pension liability of \$23,285, the increase in deferred inflows related to pensions of \$3,650, and the decrease of deferred outflows related to pensions of \$9,627.		10,008
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the change in the accrued liability for compensated absences.		3,351
Some revenues will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received, therefore are not reported as revenues in the fund statements.		17,849
The issuance of long-term debt (e.g., bonds and notes payable) provides current financial resources to governmental funds, while 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.		
Notes payable principal retired	\$	33,420
Capital leases retired		<u>52,771</u>
		86,191
Interest payable on long-term debt is recorded in the government-wide statements. This is the amount that prior year interest payable exceeded current year interest payable.		<u>(444)</u>
Change in net position of governmental activities	\$	<u><u>498,770</u></u>

See accompanying notes to financial statements.

**NOTES TO THE
FINANCIAL STATEMENTS**

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CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gun Barrel City, Texas (City) was incorporated on May 26, 1969, under the provisions of the State of Texas. The City operates under a Home Rule Charter, with a mayor and one city council member elected at large and four council members elected from two districts. The accounting policies of the City of Gun Barrel City, Texas conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. REPORTING ENTITY

The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit.

The Corporation described below is included in the City's reporting entity because the City appoints the governing body and the Corporation is fiscally dependent upon the City. The Corporation is reported as a discretely presented component unit since the governing body is not substantively the same as the governing body of the City, and it provides services to the citizens of Gun Barrel City and the surrounding area as opposed to only the primary government. To emphasize that it is legally separate from the City, it is reported in a separate column in the financial statements.

Individual Component Unit Disclosures:

Discretely Presented Component Unit:

The Gun Barrel City Economic Development Corporation (the "Corporation") is responsible for collecting and disbursing the one-fourth percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund and has a September 30 year end.

Separately issued financial reports are available for the Corporation. This report may be obtained by contacting the following office.

Gun Barrel City Economic Development Corporation
1720 W. Main Street
Gun Barrel City, Texas 75147

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The statement of activities demonstrates the degree to which the direct expenses of a given function 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*.

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

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements - are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements - are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and net pension liability, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The accounts of the City are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures as appropriate. The City reports the following major governmental funds:

General Fund is used to account for the general operations of the City.

Sales taxes, franchise taxes, licenses, 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 if received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. BUDGETARY INFORMATION

The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted in Council chambers at City Hall to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance.

The annual budget for the general fund is prepared on the budgetary basis of accounting. Appropriations lapse at fiscal year-end. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

E. COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City has no material violations of finance related legal and contractual provisions, including the Texas Public Funds Investment Act.

F. CASH EQUIVALENTS

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less from the date of acquisition.

G. INVESTMENTS

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in TexPool. In accordance with state law, TexPool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. TexPool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

The State Comptroller of Public Accounts oversees TexPool. Federated Investors is the full service provider to the pools managing the assets, providing participant services, and arranging for all custody and other functions in support of the pools operations under a contract with the Comptroller.

TexPool is managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. TexPool is rated AAAM by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool, like its participants, is governed by the Texas Public Funds Investment Act, and is in full compliance with the Act.

H. CAPITAL ASSETS

Capital assets, which include land, construction in progress, machinery and equipment, and infrastructure (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. CAPITAL ASSETS - CONTINUED

As the government constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase the estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other buildings, machinery and equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Years
Buildings	30
Improvements	10-20
Machinery and equipment	5-15
Infrastructure	10-40

I. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is reported in governmental funds only if the liability has matured as a result of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable. Vacation leave shall be taken during the year following its accumulation.

J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows related to pensions, which arise only under an accrual basis of accounting. This amount is deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, municipal court and hotel occupancy tax. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows related to pensions, which arise only under an accrual basis of accounting, are reported only in the government-wide statement of net position. This amount is deferred and amortized over the actuarial determined recognition period.

CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. PENSIONS

During the year ended September 30, 2015, the City implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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' 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.

L. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources in the year incurred and report repayments as debt service expenditures.

M. NET POSITION AND FUND BALANCE

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position - This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

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

The governmental fund financials present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. NET POSITION AND FUND BALANCE - CONTINUED

Nonspendable fund balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed fund balance - represents amounts that can only be used for specific purposes imposed by formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned fund balance - represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund.

Unassigned fund balance - represents the residual classification for the general fund or deficit balances in other funds.

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

N. PROPERTY TAXES

The City has not levied property taxes since 1992. Prior to 1992, the City's property tax was levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Henderson County Tax Appraisal District based upon market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Henderson County Tax Assessor/Collector bills and collects the City's delinquent property taxes, which are due October 1.

Effective October 1, 1992, in accordance with the results of an election, the City began collecting an additional 1/2 cent sales tax through the state, based on retail sales in the City. In conjunction with this election, property taxes are no longer being assessed as of October 1, 1992.

O. USE OF ESTIMATES

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

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

2. DEPOSITS AND INVESTMENTS

A request for TexPool's financial statements may be made at www.texpool.com. State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Treasury and the State Treasurer's Investment Pool.

<u>Investment Type</u>	<u>Fair Value</u>
Certificates of deposit	\$ 388,966
TexPool	1,249
	<u>\$ 390,215</u>

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of September 30, 2015, the City's investment in TexPool was rated AAAm by Standard & Poor's, the highest rating a local government can achieve.

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2015. At year end, the bank balance of the City's deposits was \$2,170,439. The bank balances were entirely covered by federal depository insurance or by collateral held by the pledging bank's agent in the City's name.

3. RECEIVABLES

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general and nonmajor funds, including the applicable allowances for uncollectible accounts:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Taxes	\$ 878,766	\$ 28,159	\$ 906,925
Municipal court	81,219	-	81,219
Other	14,757	-	14,757
Gross receivables	<u>974,742</u>	<u>28,159</u>	<u>1,002,901</u>
Less: allowance for uncollectibles	<u>(26,873)</u>	<u>-</u>	<u>(26,873)</u>
Net total receivables	<u>\$ 947,869</u>	<u>\$ 28,159</u>	<u>\$ 976,028</u>

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

4. CHANGES IN CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 371,086	\$ -	\$ -	\$ 371,086
Construction in progress	34,232	24,303	(34,232)	24,303
Total capital assets not being depreciated	<u>405,318</u>	<u>24,303</u>	<u>(34,232)</u>	<u>395,389</u>
Capital assets being depreciated:				
Buildings	2,823,110	22,300	-	2,845,410
Machinery and equipment	2,974,220	52,164	-	3,026,384
Infrastructure	4,488,370	540,805	-	5,029,175
Total capital assets being depreciated	<u>10,285,700</u>	<u>615,269</u>	<u>-</u>	<u>10,900,969</u>
Less accumulated depreciation for:				
Buildings	(613,842)	(99,869)	-	(713,711)
Machinery and equipment	(2,334,211)	(201,148)	-	(2,535,359)
Infrastructure	(1,108,809)	(238,947)	-	(1,347,756)
Total accumulated depreciation	<u>(4,056,862)</u>	<u>(539,964)</u>	<u>-</u>	<u>(4,596,826)</u>
Total capital assets being depreciated, net	<u>6,228,838</u>	<u>75,305</u>	<u>-</u>	<u>6,304,143</u>
Governmental activities capital assets, net	<u>\$ 6,634,156</u>	<u>\$ 99,608</u>	<u>\$ (34,232)</u>	<u>\$ 6,699,532</u>

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

Governmental activities:

Administration	\$ 90,697
Police protection	54,318
Code enforcement	1,116
Fire protection	119,119
Streets	201,586
Parks	63,515
Economic development	9,613
Total depreciation expense - governmental activities	<u>\$ 539,964</u>

The City has a construction project outstanding as of September 30, 2015. The project is evidenced by contractual commitment with a contractor and includes:

<u>Project:</u>	<u>Commitment</u>	
	<u>Spent to-date</u>	<u>Remaining</u>
Sewer and street improvements	<u>\$ 24,303</u>	<u>\$ 24,387</u>

The street improvement project is a commitment of the City's general fund. This project is being funded by the City and a grant.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

5. LONG-TERM DEBT

A. NOTES PAYABLE

The note payable currently outstanding and reported as a liability of the City's governmental activities is summarized as follows:

<u>Note Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balance</u>	<u>Collateral</u>
\$ 1,400,000	5/10/2036	3.55%	\$ 1,053,763	Certificates of deposit

¹ The City entered into a loan commitment for an amount up to \$1,400,000, for a term of 25 years, with interest only payable quarterly during the 12 month construction term, then 96 quarterly payments of \$21,728.38, payments subject to change due to rate changes. The interest rate is 3.55% fixed until 11/30/2021, then Wall Street Journal Prime minus .25 adjusted on 11/30/2021 and each 11/30 thereafter, with a floor of 3.55% and a ceiling of 8.00%.

The debt service requirements for the City's note payable is as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 34,639	\$ 37,244
2017	35,903	35,981
2018	37,213	34,671
2019	38,571	33,313
2020	39,978	31,906
2021-2025	222,859	144,405
2026-2030	266,586	102,216
2031-2035	318,894	51,750
2036	59,120	4,422
	<u>\$ 1,053,763</u>	<u>\$ 475,908</u>

Interest expense for the year ended September 30, 2015 totaled \$38,464 as related to the note payable.

B. CAPITAL LEASES

The City is purchasing a fire truck under a lease purchase agreement. The interest on the lease is 5.18% and the lease matures October 15, 2016.

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Machinery and equipment	\$ 353,009
Less: accumulated depreciation	(226,514)
Total	<u>\$ 126,495</u>

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

5. LONG-TERM DEBT - CONTINUED

B. CAPITAL LEASES - CONTINUED

Annual debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2016	\$ 61,402
2017	61,401
Total amount of minimum lease payments	122,803
Less: amount representing interest	(8,919)
Present value of minimum lease payments	<u>\$ 113,884</u>

Interest expense for the year ended September 30, 2015 totaled \$8,630 as related to the capital lease.

C. CHANGES IN LONG-TERM DEBT

During the year ended September 30, 2015, the following changes occurred in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental Activities:					
Note payable	\$ 1,087,183	\$ -	\$ (33,420)	\$ 1,053,763	\$ 34,639
Capital lease	166,655	-	(52,771)	113,884	55,505
Compensated absences	70,934	94,373	(97,724)	67,583	67,583
Net pension liability	100,036	343,591	(322,199)	121,428	-
Governmental activity long-term liabilities	<u>\$ 1,424,808</u>	<u>\$ 437,964</u>	<u>\$ (506,114)</u>	<u>\$ 1,356,658</u>	<u>\$ 157,727</u>

Governmental note payable, capital lease obligations, compensated absences, and net pension liability will be liquidated by the general fund.

6. POST EMPLOYMENT OBLIGATIONS

A. PENSION OBLIGATIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

1. Plan Description

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

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

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

A. PENSION OBLIGATIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) - CONTINUED

2. Benefits Provided

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

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	5%	5%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility	25 years at any age, 5 years at age 60 and above	25 years at any age, 5 years at age 60 and above
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase to retirees	0% of CPI	0% of CPI

Employees covered by benefit terms - 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	16
Inactive employees entitled to but not yet receiving benefits	22
Active employees	<u>45</u>
	83

3. Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.48% and 5.25% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$96,044, and were equal to the required contributions.

CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

A. PENSION OBLIGATIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) - CONTINUED

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions - The Total Pension Liability in the December 31, 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.

CITY OF GUN BARREL CITY, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015
 CONTINUED

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

A. PENSION OBLIGATIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) - CONTINUED

4. Net Pension Liability - Continued

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	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount Rate - 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 GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

A. PENSION OBLIGATIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) - CONTINUED

4. Net Pension Liability - Continued

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/13	\$ 2,642,878	\$ 2,549,278	\$ 93,600
Changes for the year:			
Service cost	155,794	-	155,794
Interest	186,149	-	186,149
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(4,605)	-	(4,605)
Changes of assumptions	-	-	-
Contributions - employer	-	86,857	(86,857)
Contributions - employee	-	82,991	(82,991)
Net investment income	-	145,853	(145,853)
Benefit payments, including refunds of employee contributions	(123,011)	(123,011)	-
Administrative expense	-	(1,523)	1,523
Other changes	-	(125)	125
Net changes	214,327	191,042	23,285
Balance at 12/31/14	\$ 2,857,205	\$ 2,740,320	\$ 116,885

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	\$544,730	\$116,885	\$(232,904)

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

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

A. PENSION OBLIGATIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) - CONTINUED

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

For the year ended September 30, 2015, the City recognized pension expense of \$87,616.

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	\$ -	\$ 3,650
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	26,077	-
Contributions subsequent to the measurement date	73,131	-
Total	\$ 99,208	\$ 3,650

\$73,131 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 Dec 31:

2016	\$5,564
2017	5,564
2018	5,564
2019	5,735
2020	-
Thereafter	-

B. PENSION OBLIGATIONS - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

1. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nonmember Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

B. PENSION OBLIGATIONS - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - CONTINUED

1. Plan Description - Continued

At August 31, 2014, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated participants entitled to benefits but not yet receiving them	2,161
Active participants (vested and nonvested)	4,036

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

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

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

2. Funding Policy

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

3. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2014 total contributions (dues and prior service) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,530,343 for the fiscal year ending August 31, 2014.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

B. PENSION OBLIGATIONS - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - CONTINUED

4. Net Pension Liability

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

City's Proportionate share net pension liability	\$	4,543
State's proportionate share that is associated with the City		<u>570</u>
Total	\$	5,113

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	916
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	-
Contributions paid to TESRS subsequent to the measurement date	612	-
Total	\$ 612	\$ 916

\$612 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 August 31, 2014. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended August 31:</u>	
2016	\$ (229)
2017	(229)
2018	(229)
2019	(229)
2020	-
Thereafter	-

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

6. POST EMPLOYMENT OBLIGATIONS - CONTINUED

B. PENSION OBLIGATIONS - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - CONTINUED

4. Net Pension Liability - Continued

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

Valuation Date	August 31, 2014
Inflation	3.50%
Salary increases	N/A
Investment Rate of Return, net of plan expenses (including inflation)	7.75%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the System, calculated using the discount rate of 7.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
System's net pension liability	\$37,446,213	\$18,171,643	\$6,926,006

C. OTHER POSTEMPLOYMENT BENEFIT (OPEB) - SUPPLEMENTAL DEATH BENEFITS FUND

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$3,366, \$3,012 and \$2,638, respectively, which equaled the required contributions each year.

7. OTHER SIGNIFICANT COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. 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 government expects such amounts, if any, to be immaterial.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

7. OTHER SIGNIFICANT COMMITMENTS - CONTINUED

On February 25, 2014, the Corporation entered into a 380 agreement with the Hometown Cinemas, LLC ("Developer") and the City of Gun Barrel City Economic Development Corporation. Under the agreement, the City agrees to pay the Developer one hundred percent (100%) of the Sales and Use Tax, and Sales Tax for Property Tax Relief, at a combined rate of one and one-half percent (1.50%) generated by and attributed solely to the sales at the Property in the event that the aggregate of the Sales and Use Tax, Sales Tax for Property Tax Relief, Street Maintenance Sales and Use Tax, and Type B Sales and Use Tax, at the combined rate of two percent (2%) generated by and attributed solely to sales from the Property in the applicable one (1) year period, and received from the State Comptroller by the City, equal or exceed twenty-one thousand dollars (the equivalent of \$1,050,000 in taxable sales at the Property). If less than this amount, the City is not obligated to make any payments to the Developer for sales attributable to the Property). As of the date of these financial statements, the City and the Corporation had agreed to extend the agreement until February 2016 to allow the Developer to be in compliance with the agreement. A payment of \$18,511 was made to the Developer at that time.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

9. ECONOMIC DEPENDENCE

A material part of the City's revenues are dependent on two taxpayers, the loss of which could have a material effect on the City. For the year ended September 30, 2015, approximately 46% of sales tax representing approximately 42% of total general fund revenues were attributable to these taxpayers.

10. INTERFUND TRANSFERS

The composition of interfund activity for the year ended September 30, 2015 is as follows:

Transfers from	Transfers to	Amount
General Fund	Nonmajor governmental funds	\$ 10,046

Transfers are primarily used to move funds from:

- The General Fund to the Non-Major Governmental Funds for administrative support.

In the current year all funds held in the Tourism Fund that were related to festival revenues were transferred to the newly created Festivals Fund. Also, the Lowe's incentive reserve was transferred to the Reserve Fund since Lowe's did not meet the requirements under their 380 agreement.

11. DISCRETELY PRESENTED COMPONENT UNIT - GUN BARREL CITY ECONOMIC DEVELOPMENT CORPORATION, INC. (CORPORATION)

A. CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

At year end the bank balance of the Corporation's deposits was \$1,392,826. The bank balance was entirely covered by federal depository insurance or by collateral held by the pledging bank's agent in the Corporation's name.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

11. DISCRETELY PRESENTED COMPONENT UNIT - GUN BARREL CITY ECONOMIC DEVELOPMENT CORPORATION, INC. (CORPORATION) - CONTINUED

B. INVESTMENTS

The local government investment pools such as TexSTAR are managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act. Although the pool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the City's position in the pool is the same as the value of the pool's shares.

A request for TexSTAR's financial statements may be made at www.texstar.org.

TexSTAR is co-administered by JPMorgan Fleming Asset Management (USA), Inc. and J.P. Morgan Chase, who provide investment services, participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JP Morgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

Investments - State statutes authorize the Corporation to invest in the following obligations: (1) certificates of deposit, (2) mutual funds, and (3) investment pools, meeting the criteria established by the Public Funds Investment Act, as amended.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Public Funds Investment Act, and the actual rating as of year-end.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End
TexSTAR	<u>\$ 3,512</u>	N/A	AAAm

C. NOTES RECEIVABLE

The Corporation loans funds at a reduced interest rate to qualifying businesses as an economic incentive. Repayment of the loans is on a monthly installment basis with maturities from sixty to eighty-four months and an interest rate of 2%.

Principal maturities of long-term notes receivable are as follows for the years ended September 30:

	2016	\$	57,287
	2017		11,208
	2018		7,632
	2019		1,317
	2020		1,344
	Thereafter		<u>1,991</u>
		<u>\$</u>	<u>80,779</u>

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

11. DISCRETELY PRESENTED COMPONENT UNIT - GUN BARREL CITY ECONOMIC DEVELOPMENT CORPORATION, INC. (CORPORATION) - CONTINUED

D. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 325,711	\$ -	\$ -	\$ 325,711
Total capital assets not being depreciated	<u>325,711</u>	<u>-</u>	<u>-</u>	<u>325,711</u>
Capital assets being depreciated:				
Machinery and equipment	7,265	-	-	7,265
Total capital assets being depreciated	<u>7,265</u>	<u>-</u>	<u>-</u>	<u>7,265</u>
Less accumulated depreciation for:				
Machinery and equipment	(5,619)	(493)	-	(6,112)
Total accumulated depreciation	<u>(5,619)</u>	<u>(493)</u>	<u>-</u>	<u>(6,112)</u>
Total capital assets being depreciated, net	<u>1,646</u>	<u>(493)</u>	<u>-</u>	<u>1,153</u>
Governmental activities capital assets, net	<u>\$ 327,357</u>	<u>\$ (493)</u>	<u>\$ -</u>	<u>\$ 326,864</u>

Depreciation expense for the year ended September 30, 2015, was \$493.

E. ECONOMIC DEPENDENCE

A material part of the Corporation's revenues are dependent on two taxpayers, the loss of which could have a material effect on the Corporation. For the year ended September 30, 2015, approximately 47% of sales tax representing approximately 40% of total general fund revenues were attributable to these taxpayers.

F. COMMITMENTS AND CONTINGENCIES

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Corporation. Settlement claims have not exceeded this commercial coverage since the inception of the Corporation.

On January 22, 2013, the Corporation entered into a loan agreement with a developer for a line of credit in the amount of \$150,000, for a term of three years at an interest rate of two percent per annum, renewable annually with the approval of the Corporation and re-negotiated after three years. The developer will be given a ninety-day grace period before the first payment is due on each draw. As of September 30, 2015, the developer has drawn \$148,311 on the line of credit with a balance due of \$42,845.

**CITY OF GUN BARREL CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CONTINUED**

11. DISCRETELY PRESENTED COMPONENT UNIT - GUN BARREL CITY ECONOMIC DEVELOPMENT CORPORATION, INC. (CORPORATION) - CONTINUED

F. COMMITMENTS AND CONTINGENCIES - CONTINUED

On February 25, 2014, the Corporation entered into a 380 agreement with the Hometown Cinemas, LLC ("Developer") and the City of Gun Barrel City, Texas. Under the agreement, the Corporation agrees to pay the Developer one hundred percent (100%) of the Type B Sales and Use Tax, at a rate of one fourth of one-percent (0.25%) generated by and attributed solely to sales from the Property in the event that the aggregate of the Sales and Use Tax, Sales Tax for Property Tax Relief, Street Maintenance Sales and Use Tax, and Type B Sales and Use Tax, at the combined rate of two percent (2%) generated by and attributed solely to sales from the Property in the applicable one (1) year period, and received from the State Comptroller by the City, equal or exceed twenty-one thousand dollars (the equivalent of \$1,050,000 in taxable sales at the Property). If less than this amount, the Corporation is not obligated to make any payments to the Developer for sales attributable to the Property. As of the date of these financial statements, the Corporation and the City had agreed to extend the agreement until February 2016 to allow the Developer to be in compliance with the agreement and a payment of \$2,644 was made at that time.

G. PRIOR PERIOD ADJUSTMENT

Fund balance of the general fund has been restated in order to remove long-term notes receivable that had been included in prior years. This was a decrease to fund balance in the amount of \$143,947. This prior period adjustment was only for the financial statements reported on under the modified accrual basis of accounting, accordingly net position on the government-wide statements was unaffected.

H. RELATED PARTY TRANSACTIONS

The Corporation pays rent to the City for office space in Brawner Hall in the amount of \$1,000 per month.

12. PRIOR PERIOD ADJUSTMENT

During the year, the City implemented 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*. Under GASB 68, the City was required to record its Net Pension Liability. Adoption of GASB 68 required a prior period adjustment to report the effect retroactively. The prior period adjustment was \$36,182 for governmental activities, which resulted in a decrease to net position.

Net position has been restated in order to reflect an adjustment for municipal court receivables that had been omitted in prior years. The prior period adjustment for governmental activities was \$42,335, which resulted in an increase to net position.

13. SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 14, 2016, the date the financial statements were available to be issued.

Subsequent to year end, the City signed a 10-year note payable for \$394,794 at 2.98% interest to buy a pumper truck. The truck was ordered in October 2015.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF GUN BARREL CITY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Over (Under) Budget
REVENUES						
Taxes:						
Sales	\$ 2,546,330	\$ 2,519,424	\$ 2,979,506	\$ (460,555)	\$ 2,518,951	\$ (473)
Franchise	335,657	338,556	392,792	(41,597)	351,195	12,639
Alcoholic beverage	25,267	34,668	35,601	845	36,446	1,778
Licenses and permits	116,342	80,149	98,169	-	98,169	18,020
Fines and forfeitures	162,250	160,298	149,323	-	149,323	(10,975)
Charges for current services	15,103	15,903	13,175	-	13,175	(2,728)
Revenues from use of money and property	2,067	1,224	5,389	(1,157)	4,232	3,008
Other	79,338	100,815	110,667	2,288	112,955	12,140
Intergovernmental	-	2,280	18,536	(16,256)	2,280	-
Total revenues	<u>3,282,354</u>	<u>3,253,317</u>	<u>3,803,158</u>	<u>(516,432)</u>	<u>3,286,726</u>	<u>33,409</u>
EXPENDITURES						
Current:						
Mayor and council	3,855	4,255	6,031	-	6,031	1,776
Administration	424,355	398,506	389,891	(13,237)	376,654	(21,852)
City secretary	97,370	93,181	90,092	2,034	92,126	(1,055)
Treasurer	90,475	89,045	79,051	1,832	80,883	(8,162)
Municipal court	118,392	116,153	109,677	3,159	112,836	(3,317)
Municipal buildings	70,863	71,456	68,472	1,034	69,506	(1,950)
Police protection	1,134,665	1,120,682	1,107,345	32,071	1,139,416	18,734
Code enforcement	111,035	108,713	104,166	2,633	106,799	(1,914)
Building inspections	116,111	114,099	109,940	3,217	113,157	(942)
Fire protection	327,230	359,033	350,516	7,117	357,633	(1,400)
Streets	476,304	473,058	776,343	(303,950)	472,393	(665)
Parks	101,157	97,501	91,347	3,048	94,395	(3,106)
Animal control	55,573	52,666	52,924	1,130	54,054	1,388
Economic development	-	-	-	-	-	-
Public enhancement	-	-	3,244	-	3,244	3,244
Debt service:						
Principal retirement	112,438	112,438	86,192	21,202	107,394	(5,044)
Interest and fiscal charges	42,531	42,531	47,094	481	47,575	5,044
Total expenditures	<u>3,282,354</u>	<u>3,253,317</u>	<u>3,472,325</u>	<u>(238,229)</u>	<u>3,234,096</u>	<u>(19,221)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>330,833</u>	<u>(278,203)</u>	<u>52,630</u>	<u>52,630</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	(10,046)	-	(10,046)	(10,046)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,787</u>	<u>\$ (278,203)</u>	<u>\$ 42,584</u>	<u>\$ 42,584</u>

**GUN BARREL CITY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS***

	12/31/14
Total pension liability	
Service cost	\$ 155,794
Interest	186,149
Changes in benefit terms	-
Differences between expected and actual experience	(4,605)
Assumption changes	-
Employee contributions	(123,011)
Net change in total pension liability	214,327
Total pension liability - beginning	2,642,878
Total pension liability - ending (a)	\$ 2,857,205
Plan fiduciary net position	
Contributions - employer	\$ 86,857
Contributions - members	82,991
Net investment income	145,853
Benefit payments	(123,011)
Administrative expense	(1,523)
Other	(125)
Net change in plan fiduciary net position	191,042
Plan fiduciary net position - beginning	2,549,278
Plan fiduciary net position - ending (b)	\$ 2,740,320
Net pension liability - ending (a) - (b)	\$ 116,885
Plan fiduciary net position as a percentage of the total pension liability	95.91%
Covered employee payroll	\$ 1,659,825
Net pension liability as a percentage of covered Employee payroll	7.04%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**GUN BARREL CITY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS**

LAST 10 FISCAL YEARS*

Fiscal year ending September 30,	<u>2015</u>
Actuarially determined contribution	\$ 96,044
Contributions in relation to the actuarially determined contributions	<u>\$ (96,044)</u>
Contribution excess (deficiency)	\$ -
Covered employee payroll	\$ 1,659,825
Contributions as a percentage of covered employee payroll	5.79%

Notes to Schedule of Contributions:

Valuation date: 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	26 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.00%
Salary increases	3.5% to 12.0% 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 monthly table with blue collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other information: There were no benefit changes during the year.

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**GUN BARREL CITY, TEXAS
REQUIRED SUPPLEMENTARY SCHEDULES
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2015**

Fiscal year ending August 31,*	<u>2015**</u>
City's Proportion of the Net Pension Liability	0.025%
City's Proportionate Share of Net Pension Liability	\$ 4,543
States Proportionate Share of the Net Pension Liability associated with the City	<u>570</u>
Total	<u><u>\$ 5,113</u></u>
City's Covered Employee Payroll	\$ 135,817
City's Proportionate Share of the Net Pension Liability as a percentage of its Covered Employee Payroll	3.34%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	83.50%

*The amounts presented above are as of the measurement date of the collective net pension liability.

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**GUN BARREL CITY, TEXAS
REQUIRED SUPPLEMENTARY SCHEDULES
SCHEDULE OF THE CITY'S CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30 2015**

Fiscal year ending September 30,*	<u>2015**</u>
Contractually Required Contribution	\$ 612
Contribution in Relation to the Contractually Required Contribution	<u>(612)</u>
Contribution Deficiency (Excess)	<u><u>\$ -</u></u>
City's Covered Employee Payroll	\$ 135,817
Contributions as a percentage of Covered Employee Payroll	0.45%

*The amounts presented above are as of the City's most recent fiscal year end.

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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COMBINING AND INDIVIDUAL NONMAJOR FUND STATEMENTS

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NONMAJOR GOVERNMENTAL FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

The **Volunteer Fire Department Fund** is used to account for donations received to benefit the volunteer fire department.

The **Parks Special Fund** is used to account for sign advertising revenue that is restricted for development of City parks. The general operations and maintenance of the parks is accounted for within the general fund.

The **Police Special Fund** is used to account for donations received to benefit the police department.

The **Court Security Fund** is used to account for the revenues collected to provide security services for buildings housing a municipal court.

The **Court Time Payment Fees Fund** is used to account for revenues that are to be used for the efficiency of judicial administration.

The **Court Technology Fund** is used to account for revenues that are to be used for technological enhancements to the municipal court.

The **Law Enforcement Education Fund** is used to account for revenues received to provide law enforcement training and education.

The **Forfeited Contraband Fund** is used to account for seized property to be used for official purposes as provided by Article 59.06 Texas Code of Criminal Procedure.

The **Tourism Fund** is used to account for hotel occupancy taxes received to be used for historic preservation and tourism promotion as authorized by statute.

The **Federal Grants Fund** is used to account for revenue and expenditures of federal grants.

The **Festivals Fund** is used to account for revenue and expenditures of the annual festival.

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**CITY OF GUN BARREL CITY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2015**

	<u>Volunteer Fire Department</u>	<u>Parks Special</u>	<u>Police Special</u>	<u>Court Security</u>	<u>Court Time Payment Fees</u>	<u>Court Technology</u>	<u>Law Enforcement Education</u>	<u>Forfeited Contraband</u>	<u>Tourism</u>	<u>Federal Grants</u>	<u>Festivals</u>	<u>Totals</u>
ASSETS												
Cash and cash equivalents	\$ 5,429	\$ 1,047	\$ 3,271	\$ 87,294	\$ 12,459	\$ 5,306	\$ 13,361	\$ 472	\$ 128,461	\$ -	\$ 94,120	\$ 351,220
Receivables (net of allowance for uncollectibles)	-	-	-	-	-	-	-	-	28,159	-	-	28,159
Total assets	<u>\$ 5,429</u>	<u>\$ 1,047</u>	<u>\$ 3,271</u>	<u>\$ 87,294</u>	<u>\$ 12,459</u>	<u>\$ 5,306</u>	<u>\$ 13,361</u>	<u>\$ 472</u>	<u>\$ 156,620</u>	<u>\$ -</u>	<u>\$ 94,120</u>	<u>\$ 379,379</u>
LIABILITIES												
Accounts payable and other current liabilities	\$ -	\$ 521	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 521
Total liabilities	<u>-</u>	<u>521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>521</u>
DEFERRED INFLOWS OF RESOURCES												
Unavailable revenue - hotel occupancy tax	-	-	-	-	-	-	-	-	27,654	-	-	27,654
FUND BALANCES												
Restricted for:												
Cultural and recreational	-	526	-	-	-	-	-	-	128,966	-	94,120	223,612
Public safety	5,429	-	3,271	87,294	12,459	5,306	13,361	472	-	-	-	127,592
Total fund balances	<u>5,429</u>	<u>526</u>	<u>3,271</u>	<u>87,294</u>	<u>12,459</u>	<u>5,306</u>	<u>13,361</u>	<u>472</u>	<u>128,966</u>	<u>-</u>	<u>94,120</u>	<u>351,204</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,429</u>	<u>\$ 1,047</u>	<u>\$ 3,271</u>	<u>\$ 87,294</u>	<u>\$ 12,459</u>	<u>\$ 5,306</u>	<u>\$ 13,361</u>	<u>\$ 472</u>	<u>\$ 156,620</u>	<u>\$ -</u>	<u>\$ 94,120</u>	<u>\$ 379,379</u>

CITY OF GUN BARREL CITY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

	<u>Volunteer Fire Department</u>	<u>Parks Special</u>	<u>Police Special</u>	<u>Court Security</u>	<u>Court Time Payment Fees</u>	<u>Court Technology</u>	<u>Law Enforcement Educaiton</u>	<u>Forfeited Contraband</u>	<u>Tourism</u>	<u>Federal Grants</u>	<u>Festivals</u>	<u>Totals</u>
REVENUES												
Taxes:												
Hotel occupancy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,605	\$ -	\$ -	\$ 79,605
Fines and forfeitures	-	-	-	2,448	1,087	3,262	-	2,369	-	-	-	9,166
Revenues from use of money	4	3	17	129	53	34	-	4	342	-	118	704
Other	-	8	359	-	-	-	-	-	300	-	53,929	54,596
Intergovernmental	-	-	-	-	-	-	2,649	-	-	295,304	-	297,953
Contributions and donations	8,980	-	1,900	-	-	-	-	-	-	-	-	10,880
Total revenues	<u>8,984</u>	<u>11</u>	<u>2,276</u>	<u>2,577</u>	<u>1,140</u>	<u>3,296</u>	<u>2,649</u>	<u>2,373</u>	<u>80,247</u>	<u>295,304</u>	<u>54,047</u>	<u>452,904</u>
EXPENDITURES												
Current (operating)												
Municipal court	-	-	-	-	-	5,498	-	-	-	-	-	5,498
Police protection	-	-	2,114	-	-	-	-	1,928	-	-	-	4,042
Fire protection	22,603	-	-	-	-	-	-	-	-	-	-	22,603
Streets	-	-	-	-	-	-	-	-	-	295,304	-	295,304
Parks	-	200	-	-	-	-	-	-	-	-	-	200
Economic development	-	-	-	-	-	-	-	-	38,631	-	101,020	139,651
Total expenditures	<u>22,603</u>	<u>200</u>	<u>2,114</u>	<u>-</u>	<u>-</u>	<u>5,498</u>	<u>-</u>	<u>1,928</u>	<u>38,631</u>	<u>295,304</u>	<u>101,020</u>	<u>467,298</u>
OTHER FINANCING SOURCES (USES)												
Transfers in (out)	-	-	-	(411)	(210)	(548)	-	-	(129,878)	-	141,093	10,046
Net change in fund balances	(13,619)	(189)	162	2,166	930	(2,750)	2,649	445	(88,262)	-	94,120	(4,348)
Fund balances- beginning	<u>19,048</u>	<u>715</u>	<u>3,109</u>	<u>85,128</u>	<u>11,529</u>	<u>8,056</u>	<u>10,712</u>	<u>27</u>	<u>217,228</u>	<u>-</u>	<u>-</u>	<u>355,552</u>
Fund balances- ending	<u>\$ 5,429</u>	<u>\$ 526</u>	<u>\$ 3,271</u>	<u>\$ 87,294</u>	<u>\$ 12,459</u>	<u>\$ 5,306</u>	<u>\$ 13,361</u>	<u>\$ 472</u>	<u>\$ 128,966</u>	<u>\$ -</u>	<u>\$ 94,120</u>	<u>\$ 351,204</u>