

***COMPREHENSIVE ANNUAL FINANCIAL REPORT***

of the

**CITY OF PALESTINE, TEXAS**

**For the Year Ended September 30, 2018**

**Officials Issuing Report:**

**Michael Hornes, City Manager  
Jim Mahoney, Interim Finance Director**

**CITY OF PALESTINE, TEXAS**  
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***INTRODUCTORY SECTION***



## Letter of Transmittal

March 18, 2019

Citizens, Taxpayers and Voters of Palestine, Texas;  
Members of the City Council and City Manager:

The Comprehensive Annual Financial Report (CAFR) for the City of Palestine, Texas for the fiscal year that ended September 30, 2018, is hereby submitted for your review. Seeking to continually improve the financial reporting of the City every year, this year's report seeks to meet the content standards of excellence in municipal reporting. The City last prepared a complete CAFR in 2011-12. The Statistical Section (unaudited) begins on page 87, which includes trend data and graphs that contribute to a more complete financial story of the City.

This report was prepared through the cooperative efforts of the independent auditors and the City's Finance Department. The purpose of the report is to provide the City Council, management, staff, citizens, bondholders, and other interested parties with detailed information concerning the financial condition and activities of the City.

Responsibility for the accuracy and reliability of the presented data in this report, completeness and fairness of this report, and all disclosures, rests with City management. The City has established, and maintains, a system of internal accounting controls designed in part to provide a reasonable assurance that assets are safeguarded against loss, theft, or unauthorized use and those financial records can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that 1) the cost of maintaining the system of internal accounting controls should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management. The City seeks to provide all disclosures necessary to enable the reader to gain an understanding of the City's financial activities and position.

We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Frank Campos and Associates PLLC, Certified Public Accountants, have issued an unmodified (more commonly called a "clean") opinion on the City's financial statements which appears on page 1 of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

### **Finance and Accounting Initiatives**

Increasing the trustworthiness, clarity, and promptness of financial information has continued as a priority. Staff preparation for this year's audit demonstrated improvements and corrective actions were accomplished. For example, as can be seen on the statement of net position on page 11, staff have improved the accounting for the Annual Hot Pepper Festival by deferring both unearned revenue received and expenses prepaid prior to September 30th for the October event.

City management and department staff have been supportive of the additional time and effort required of finance staff for the less-visible functions required to maintain controls and follow through on complete and thorough accounting. There was a loss of two positions within the department and changes within two other positions, and the department also went through three Finance Directors (one permanent, and two interim) during the year. Internal controls were improved by increasing redundancy (cross-training) as a responsibility for the fundamental accounting processes during each monthly close. As evidence of the City's commitment to financial improvement, accountability, and transparency, the City's website now posts over three years of monthly financial reports, check registers, quarterly treasury reports, and annual policies which did not exist previously. City manager and council now receive balance sheets in the monthly council reporting package. In addition, now that the template for a proper CAFR has been re-established, staff is prepared for audit field-testing to commence prior to September 30 to reduce the bottleneck in the November 30 to March 31 window each year toward future GFOA award submission.

Cash management improved during this year. As detailed in the footnotes, some cash has been shifted into investments. The City of Palestine first improved its investment policy (earning certification from the Government Treasurers Organization of Texas) then has methodically implemented a diversified ladder strategy using FDIC-insured certificates of deposit, US Government Securities, and Texas Government Investment Pool.

### **Long-term Financial Planning**

The City has adopted financial management policies that provide the basis for the City's financial operations. The unassigned fund balance in the general fund, \$1,488,429 (page 14), represents 10% of total general fund expenditures \$14,276,631 (page 16) which falls short of the 25% target in the City's Fund Balance Policy adopted by the City Council for budgetary and planning purposes. This is better than the 6% represented in last year's CAFR but below our goal. In addition to providing financial stability and sustainability during difficult economic times, the City may use available fund balance reserves as a means to fund one-time, non-recurring projects or expenditures.

This increase year over year is primarily due to reductions in staff, and to positive total revenue of \$182,393 in sales and property tax revenues. Expenditures for public safety exceeded budget by \$31,478, but overall expenditures were under expectations resulting in overall increase of \$373,590. This is all in part to the hard work and dedication of the city staff to keep spending under control and find methods of reducing costs.

### **Accounting System and Budgetary Control**

The annual budget of the City serves as the foundation for its financial planning and control. The budget is proposed by the City Manager and adopted by the City Council in accordance with policies and procedures established by the City Charter, council ordinances, and policies. The budget is prepared and presented by fund, department, and expense line. The individual fund level is the legal level of control for budget expenditures. The budgetary process begins each year with the preparation of revenue estimates and budget instructions by the City's Finance Department staff and expenditure estimates and requests by each City department. Estimates and requests are reviewed by the City Manager and evaluated within the total financial framework of the City. The City Manager makes final decisions regarding the budget recommendations that are submitted to the City Council. The City Manager's proposed budget is reviewed by the City Council and followed by a final public review process, including a required public hearing prior to budget adoption.

Budgetary reporting is provided at the department level within the individual fund. Transfers of budget appropriations within funds may occur with the approval of the City Manager provided there is no increase in overall expenditures. Transfers of budget appropriations between funds, as well as any increase in total appropriations, require a formal budget amendment adopted by the City Council. Unless otherwise noted, except for capital projects funds, all appropriations lapse at yearend and excess funds become available for re-appropriation in the subsequent year. At yearend, encumbrances are recorded as a reservation of fund balance, and then re-appropriated in the subsequent year.

On review of March financials, the midpoint of each fiscal year, the City Council adopts a course-correcting current year revised budget by ordinance. With six months of actual results, this revised budget presents a more accurate picture of the City's financial position at the end of the current year than does the originally-adopted budget. This audit report provides comparative information on the original adopted and revised budget on pages 57 and 73-82.


### **Acknowledgements**

The Finance Department staff wishes to acknowledge and thank Frank Campos, CPA, and his staff for their dedicated assistance in producing this report, in providing on-going policy discussions that are instrumental in applying Government Accounting Standards appropriately and in preparing this, the first complete Comprehensive Annual Financial Report since FY2011-12.

### **Independent Audit**

Article VII, Section 7.15 of the City Charter requires an annual audit of all accounts of the City, providing financial statements including a balance sheet, summaries of income and expenditures, and also comparisons to the last previous audit. The independent certified public accountant was selected by the City Council and reports directly to the City Council, independent of City staff. The independent auditor's report is hereby transmitted for your review.

Respectfully submitted,



Jim Mahoney  
Interim Finance Director

**CITY OF PALESTINE, TEXAS**  
***LIST OF PRINCIPAL OFFICIALS***  
**SEPTEMBER 30, 2018**

**Mayor**

Steve Presley

**Members of City Council**

Larissa Loveless - District 1

Mitchel Jordan - District 2

Vickery Chivers - District 3

Joe Baxter - District 4

Dana Goolsby - District 5

Ann Conner - District 6

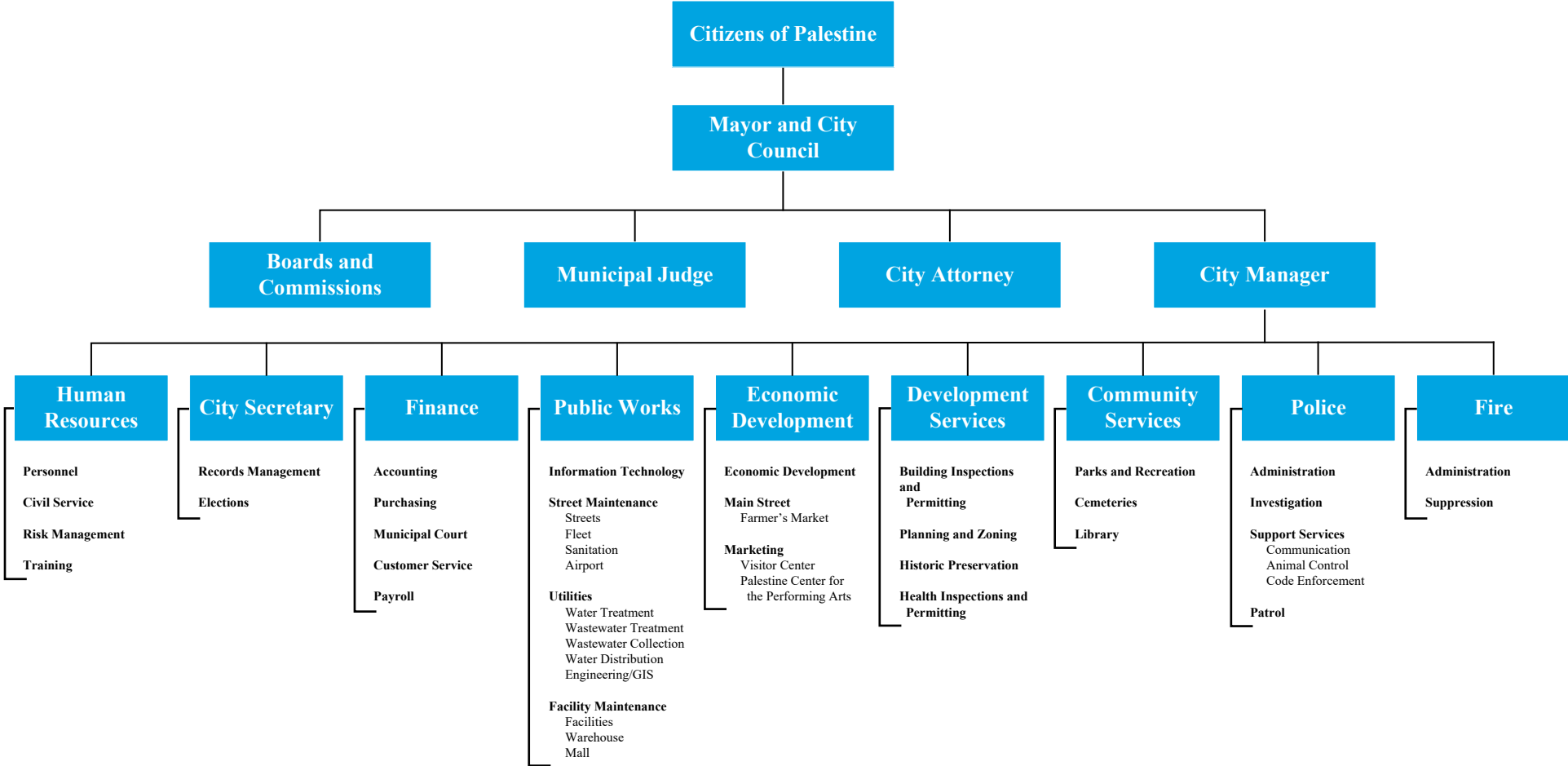
**City Manager**

Michael Hornes

**Interim Finance Director**

Jim Mahoney

**CITY OF PALESTINE, TEXAS**  
**ORGANIZATIONAL CHART**  
 SEPTEMBER 30, 2018





***FINANCIAL SECTION***

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas as of September 30, 2018, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of changes in net pension liability and net OPEB liabilities and related ratios, and schedules of pension contributions and OPEB contributions on pages 3-10, 57, and 58-63 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 Palestine, Texas' basic financial statements. The introductory section, combining nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 nonmajor financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2019, on our consideration of the City of Palestine, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Palestine, Texas' internal control over financial reporting and compliance.

*Frank Campos & Associates PLLC*

Frank Campos & Associates, PLLC

Palestine, Texas

March 18, 2019

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2018**

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Palestine, Texas (the City), for the year ended September 30, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents a short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, establishes the content of the minimum requirements for the MD&A. Please read the MD&A and the City's financial statements, which follow this section.

**STRUCTURE OF ANNUAL REPORT**

The comprehensive annual financial report is presented in compliance with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

**Government-Wide Statements**

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about the cost of services, operating results, and financial position of the City as an economic entity. The statement of net position and the statement of activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The statement of net position presents information on all of the City's assets and liabilities. The difference between the two is 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. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The statement of activities presents information showing how the City's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, using the accrual method rather than the modified accrual method that is used in the fund level statements.

The statement of net position and the statement of activities divide the City into two classes of activities:

1. **Governmental Activities** - Most of the City's basic services are reported here including general government, community development, fire and rescue, leisure services, maintenance, municipal court, police, and streets and drainage. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. **Business-Type Activities** - Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment, sanitation, and retail.

The government-wide financial statements can be found after the MD&A.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

**FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of the City funds are governmental and proprietary.

**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 near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City'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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 22 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 balances for the general fund and the debt service fund, which are considered to be a major funds. The City adopts an annual appropriated budget for its general fund and selected special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

The governmental funds financial statements can be found in the basic financial statements of this report.

**Proprietary Funds**

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment (water and wastewater), solid waste (sanitation), and retail operations (retail). The proprietary fund financial statements provide separate information for the water and wastewater, sanitation, and retail funds.

The City also uses internal service funds to account for its equipment replacement services, workers' compensation, central warehouse, health insurance, and unemployment. These internal service funds have been included within governmental activities in the government-wide financial statements.

The proprietary funds financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and debt service fund, schedule of changes in pension liability and related ratios, schedule of pension contributions, schedules of changes in OPEB liabilities and related ratios, and schedules of OPEB contributions. RSI can be found after the basic financial statements.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows exceed liabilities and deferred inflows by \$30,955,893 as of yearend in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year. The largest portion of the City's net position (92%) reflects its investments in capital assets (e.g., land, building, machinery and equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Position**

The following table reflects the condensed statement of net position:

*Summary of Statement of Net Position*

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 6,550,428	\$ 6,096,768	\$ 8,281,736	\$ 8,429,497	\$ 14,832,164	\$ 14,526,265
Capital assets	17,477,170	18,878,666	27,247,876	27,965,030	44,725,046	46,843,696
Total assets	24,027,598	24,975,434	35,529,612	36,394,527	59,557,210	61,369,961
Deferred outflows of resources	1,641,786	2,062,296	345,725	458,760	1,987,511	2,521,056
Current and other liabilities	1,768,643	1,533,568	866,577	1,088,027	2,635,220	2,621,595
Long-term liabilities	16,950,002	19,996,116	8,775,086	9,964,347	25,725,088	29,960,463
Total liabilities	18,718,645	21,529,684	9,641,663	11,052,374	28,360,308	32,582,058
Deferred inflows of resources	1,822,275	188,823	406,245	40,242	2,228,520	229,065
Net Position:						
Net investment in capital assets	8,525,320	8,837,366	20,021,618	19,797,152	28,546,938	28,634,518
Restricted	1,799,601	2,338,406	1,804,479	906,364	3,604,080	3,244,770
Unrestricted	(5,196,457)	(5,856,549)	4,001,332	5,057,155	(1,195,125)	(799,394)
Total net position	\$ 5,128,464	\$ 5,319,223	\$ 25,827,429	\$ 25,760,671	\$ 30,955,893	\$ 31,079,894

A portion of the primary government's net position, \$3,604,080, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$1,195,125. Unrestricted net position did not improve over the prior year primarily due to the liability recorded as a result of judgement on litigation (see Note III-N) as well as a change in accounting principle to implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (see Note III-M).

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

**Statement of Activities**

The following table provides a summary of the City's changes in net position:

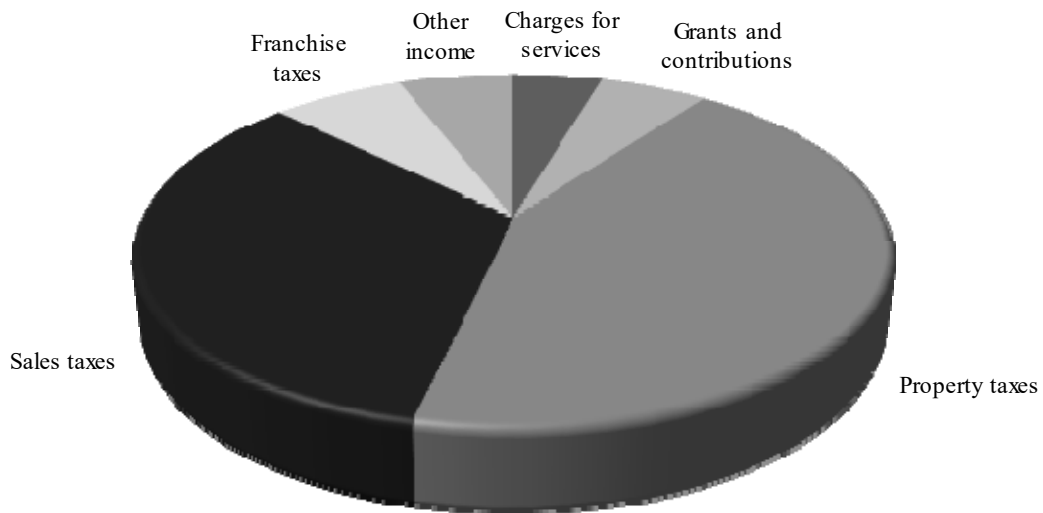
*Summary of Statement of Activities*

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 733,753	\$ 710,014	\$ 11,452,090	\$ 11,059,441	\$ 12,185,843	\$ 11,769,455
Operating grants and contributions	481,274	520,710	-	-	481,274	520,710
Capital grants and contributions	407,481	722,501	-	-	407,481	722,501
General revenues:						
Property taxes	6,961,566	6,243,134	-	-	6,961,566	6,243,134
Sales taxes	5,411,426	5,284,628	-	-	5,411,426	5,284,628
Franchise taxes	1,091,211	1,105,224	-	-	1,091,211	1,105,224
Investment earnings	106,787	67,202	48,636	8,041	155,423	75,243
Gain (loss) on sale of assets	711,863	8,500	-	-	711,863	8,500
Miscellaneous other income	124,079	154,576	943	5,441	125,022	160,017
Total revenues	16,029,440	14,816,489	11,501,669	11,072,923	27,531,109	25,889,412
Expenses:						
General government	2,299,445	2,230,980	-	-	2,299,445	2,230,980
Public safety	7,752,446	8,476,776	-	-	7,752,446	8,476,776
Community services	4,512,989	5,001,943	-	-	4,512,989	5,001,943
Community development	2,372,808	1,891,830	-	-	2,372,808	1,891,830
Interest on long-term debt	336,512	361,890	-	-	336,512	361,890
Water and wastewater	-	-	6,822,610	6,952,929	6,822,610	6,952,929
Sanitation	-	-	2,849,302	2,653,193	2,849,302	2,653,193
Retail	-	-	441,514	480,820	441,514	480,820
Total expenses	17,274,200	17,963,419	10,113,426	10,086,942	27,387,626	28,050,361
Increase (decrease) in net assets before transfers	(1,244,760)	(3,146,930)	1,388,243	985,981	143,483	(2,160,949)
Transfers	1,148,847	1,303,874	(1,148,847)	(1,303,874)	-	-
Change in net position	(95,913)	(1,843,056)	239,396	(317,893)	143,483	(2,160,949)
Net position - beginning of year	5,319,223	7,162,279	25,760,671	26,078,564	31,079,894	33,240,843
Change in Accounting Principle	(94,846)	-	(172,638)	-	(267,484)	-
Net position - end of year	<u>\$ 5,128,464</u>	<u>\$ 5,319,223</u>	<u>\$ 25,827,429</u>	<u>\$ 25,760,671</u>	<u>\$ 30,955,893</u>	<u>\$ 31,079,894</u>

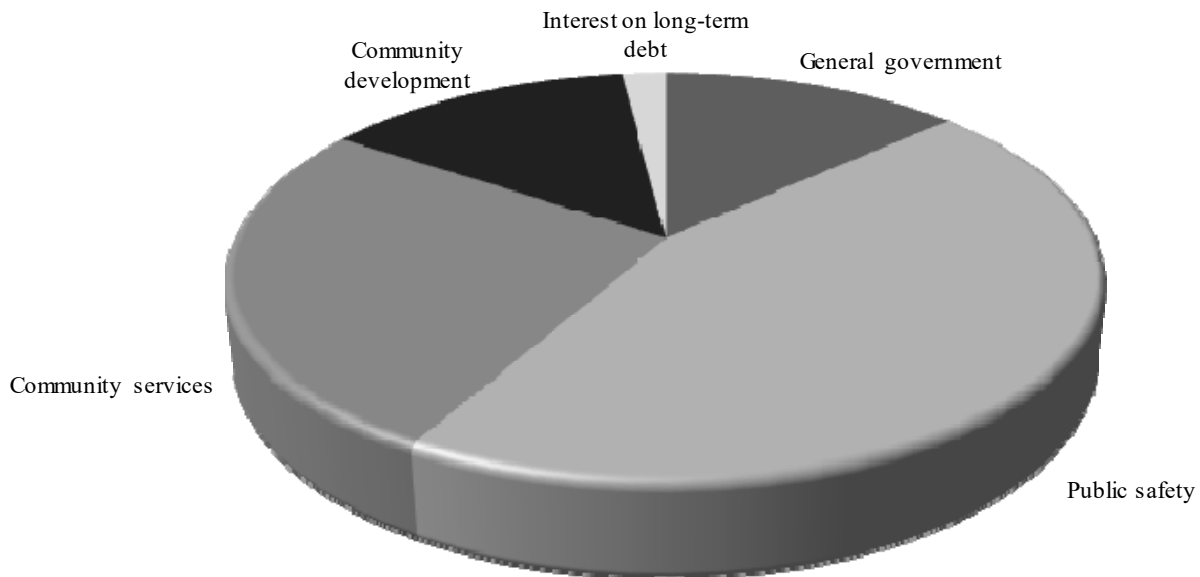
**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

*Governmental Revenues*



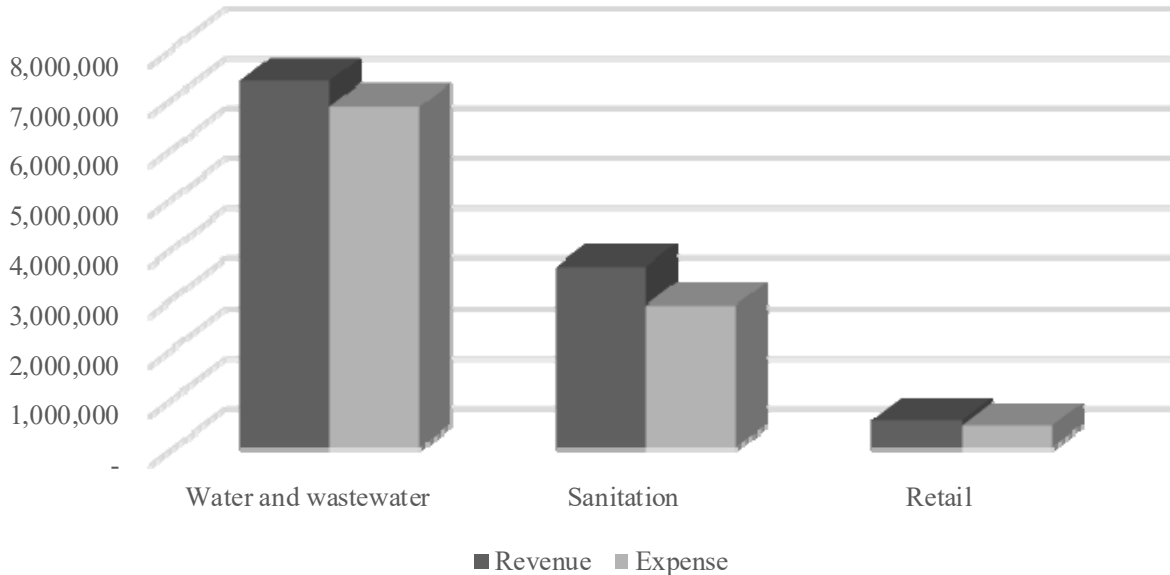
*Governmental Expenses*





**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

*Business-type Activities*



For the year, revenue from governmental activities totaled \$16,029,440. Property and sales tax revenues are the City's largest revenue sources. Property taxes increased by 11.51%, while sales taxes increased by 2.40%. Franchise fees collected from electric, gas, cable, and telephone/telecommunications utilities totaled \$1,091,211 for the year, a decrease of 1.27% from the prior year.

For the year, expenses for governmental activities totaled \$17,274,200. This represents a decrease of \$689,219, or 3.84%, over last year.

Business-type activities change in net position was \$239,396.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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 the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$4,423,677. Of this, \$295,085 is reported as nonspendable-prepaid items, \$1,799,601 is reported as restricted, \$864,700 is reported as committed and the remaining fund balance of \$1,464,291 is unassigned.

The general fund reported an increase in fund balance of \$769,890, and the debt service fund reported a decrease in fund balance of \$399,232.

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

Net position of the water and wastewater fund at the end of the year amounted to \$21,486,636, net position for the sanitation fund amounted to \$862,866, and net position of the retail fund amounted to \$3,477,927.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund reported a positive change in fund balance of \$769,890, which is an increase of \$769,890 over the final budgeted amount. General fund revenues were over budget by \$182,393 and general fund expenditures were under budget by \$373,590. General government expenditures were under budget by \$136,274, public safety expenditures were over budget by \$31,478, community services expenditures were under budget by \$143,993, and community development expenditures were under budget by \$124,801. Further detail regarding the general fund budget can be found on page 57 of this report.

**CAPITAL ASSETS**

At yearend, the City had invested \$44,725,046 in a variety of capital assets and infrastructure (net of accumulated depreciation). Depreciation is included with capital assets as required by GASB Statement No. 34 with depreciation expense of \$3,438,399.

Major capital asset events during the current year include the following:

- Purchase of equipment
- Infrastructure improvements

The following table reflects the summary schedule of the City's capital assets at yearend:

*Capital Assets*

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,839,336	\$ 2,118,457	\$ 1,800,468	\$ 1,800,468	\$ 3,639,804	\$ 3,918,925
Construction in progress	-	-	395,448	500,300	395,448	500,300
Buildings	5,578,026	5,578,026	10,520,820	10,432,817	16,098,846	16,010,843
Improvements	10,455,457	10,375,587	-	-	10,455,457	10,375,587
Machinery & equipment	11,921,852	11,721,354	1,627,937	1,455,744	13,549,789	13,177,098
Infrastructure	32,625,658	32,484,401	47,489,475	46,467,574	80,115,133	78,951,975
Less: accumulated depreciation	(44,943,159)	(43,399,159)	(34,586,272)	(32,691,873)	(79,529,431)	(76,091,032)
Total capital assets, net	\$ 17,477,170	\$ 18,878,666	\$ 27,247,876	\$ 27,965,030	\$ 44,725,046	\$ 46,843,696

More detailed information about the City's capital assets is presented in Note III-E to the financial statements.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2018**

**LONG-TERM DEBT**

At the end of the current year, the City had total certificates of obligation of \$10,439,000 and \$4,776,258 in revenue bonds outstanding. The City redeemed \$1,010,000 of certificates of obligation and \$661,620 of revenue bonds during the year.

The following table reflects the summary schedule of the City's outstanding debt at yearend:

*Long-term Debt*

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Certificates of obligation	\$ 7,989,000	\$ 8,719,000	\$ 2,450,000	\$ 2,730,000	\$ 10,439,000	\$ 11,449,000
Revenue bonds	-	-	4,776,258	5,437,878	4,776,258	5,437,878
Capital leases	962,850	1,322,300	-	-	962,850	1,322,300
Compensated absences	1,432,593	1,468,078	216,667	180,774	1,649,260	1,648,852
Net pension liability	5,769,014	7,862,896	1,141,853	1,615,695	6,910,867	9,478,591
Net OPEB obligation	796,545	623,844	190,308	-	986,853	623,844
Total long-term debt	<u>\$ 16,950,002</u>	<u>\$ 19,996,118</u>	<u>\$ 8,775,086</u>	<u>\$ 9,964,347</u>	<u>\$ 25,725,088</u>	<u>\$ 29,960,465</u>

More detailed information about the City's long-term liabilities is presented in Note III-F to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Palestine is a rural city, so nearby measures are helpful but not directly applicable. According to the US Bureau of Labor Statistics (BLS), the Consumer Price Index (Southern Region CPI-U) increased 1.7% for the South as a whole over the year September 2017 to September 2018. The BLS reports that the change in nonfarm wage and salary employment for the Tyler, Texas area over the same 12 months was up 1.7%.

The most recent U.S. Census Bureau estimate for the population of Palestine, as of July 1, 2017, was 18,306, a 1.8% decrease over the 2010 census data population of 18,712. These figures compare to the estimated population of Anderson County as a whole, which was estimated as of 2017 at 57,741, a 1.2% decrease over the 2010 census of 58,458.

Certified tax rolls from the Anderson County Appraisal District increased by \$50,731,027 million (\$964.1 million to \$1.014 billion) from 2017 to 2018.

The FY2018-19 Budget was approved by city council appropriating an increased tax rate from 0.718741 to 0.715082 with a net \$301,804 increase in general fund revenues.

Since 2016, the City of Palestine has improved transparency and accountability reporting on the city website, providing the posting of monthly financial reports to council, monthly check and credit card registers, quarterly treasury reports, and investment and fund balance policies. The City posts its own annual debt and hotel tax disclosures rather than requiring citizens to search on the State Comptroller's website.

The Comprehensive Annual Financial Report (CAFR) demonstrates a commitment to continually improve the quality of financial reporting every year; the last year the City of Palestine produced a CAFR was 2017.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Jim Mahoney, Interim Finance Director 504 N. Queen, Palestine, TX, 75801, telephone (903) 731-8439, or email [findir@palestine-tx.org](mailto:findir@palestine-tx.org).

***BASIC FINANCIAL STATEMENTS***

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,304,854	\$ 9,273	\$ 1,314,127	\$ 1,414,458
Receivables, net of allowance of doubtful accounts	1,778,592	1,276,013	3,054,605	160,832
Due from component unit	17,079	-	17,079	-
Prepaid items	295,085	19,769	314,854	3,500
Investments	132,640	513,720	646,360	-
Total current assets	<u>3,528,250</u>	<u>1,818,775</u>	<u>5,347,025</u>	<u>1,578,790</u>
<b>Noncurrent Assets</b>				
Restricted assets:				
Cash and cash equivalents	654,927	217,656	872,583	-
Receivables, net of allowance of doubtful accounts	102,612	-	102,612	-
Investments	1,444,695	916,982	2,361,677	-
Investments	819,944	5,328,323	6,148,267	-
Capital assets:				
Nondepreciable	1,839,336	2,195,917	4,035,253	995,437
Depreciable, net of accumulated depreciation	15,637,834	25,051,959	40,689,793	2,828,799
Total noncurrent assets	<u>20,499,348</u>	<u>33,710,837</u>	<u>54,210,185</u>	<u>3,824,236</u>
Total assets	<u>24,027,598</u>	<u>35,529,612</u>	<u>59,557,210</u>	<u>5,403,026</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pension	1,605,333	337,425	1,942,758	-
Deferred outflows related to OPEB	36,453	8,300	44,753	-
Total deferred outflows of resources	<u>1,641,786</u>	<u>345,725</u>	<u>1,987,511</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	1,720,122	570,656	2,290,778	5,494
Accrued interest payable	48,521	30,464	78,985	9,916
Due to primary government	-	-	-	17,079
Customer deposits	-	265,457	265,457	-
Noncurrent liabilities:				
Due within a year	1,927,746	1,198,927	3,126,673	430,000
Due in more than a year	15,022,256	7,576,159	22,598,415	1,960,000
Total liabilities	<u>18,718,645</u>	<u>9,641,663</u>	<u>28,360,308</u>	<u>2,422,489</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pension	1,776,506	402,019	2,178,525	-
Deferred inflows related to OPEB	18,675	4,226	22,901	-
Unearned revenue - Hot Pepper Festival	27,094	-	27,094	-
Unearned revenue - office rent	-	-	-	1,500
Total deferred inflows of resources	<u>1,822,275</u>	<u>406,245</u>	<u>2,228,520</u>	<u>1,500</u>
<b>NET POSITION</b>				
Net investment in capital assets	8,525,320	20,021,618	28,546,938	1,434,236
Restricted for:				
Debt service	708,242	987,817	1,696,059	-
Capital projects	41,016	816,662	857,678	-
Public safety	159,824	-	159,824	-
Economic development	873,090	-	873,090	-
Community services	17,429	-	17,429	-
Unrestricted	(5,196,457)	4,001,332	(1,195,125)	1,544,801
Total net position	<u>\$ 5,128,464</u>	<u>\$ 25,827,429</u>	<u>\$ 30,955,893</u>	<u>\$ 2,979,037</u>

See the accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General Government	\$ 2,299,445	\$ -	\$ 29	\$ 20,879
Public Safety	7,752,446	326,598	100,114	27,449
Community Services	4,512,989	112,641	168,330	72,409
Community Development	2,372,808	294,514	212,801	286,744
Interest expense on long-term debt	336,512	-	-	-
Total Governmental Activities	17,274,200	733,753	481,274	407,481
<b>Business-type Activities</b>				
Water and Wastewater	6,822,610	7,296,990	-	-
Sanitation	2,849,302	3,608,496	-	-
Retail	441,514	546,604	-	-
Total Business-type Activities	10,113,426	11,452,090	-	-
Total Primary Government	\$ 27,387,626	\$ 12,185,843	\$ 481,274	\$ 407,481
<b>Component Unit</b>				
PEDC	\$ 882,727	\$ 220,240	\$ -	\$ -

General Revenues:  
Property taxes  
Sales taxes  
Franchise taxes  
Investment earnings  
Gain (loss) on sale of assets  
Miscellaneous other revenue  
Transfers  
Total General Revenues and Transfers

Change in Net Position  
Net Position, beginning  
Change in Accounting Principle (Note III-M)  
Net Position, ending

See the accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business- type Activities	Total	PEDC
\$ (2,278,537)	\$ -	\$ (2,278,537)	\$ -
(7,298,285)	-	(7,298,285)	-
(4,159,609)	-	(4,159,609)	-
(1,578,749)	-	(1,578,749)	-
(336,512)	-	(336,512)	-
(15,651,692)	-	(15,651,692)	-
-	474,380	474,380	-
-	759,194	759,194	-
-	105,090	105,090	-
-	1,338,664	1,338,664	-
(15,651,692)	1,338,664	(14,313,028)	-
-	-	-	(662,487)
6,961,566	-	6,961,566	-
5,411,426	-	5,411,426	969,836
1,091,211	-	1,091,211	-
106,787	48,636	155,423	6,758
711,863	-	711,863	-
124,079	943	125,022	(151)
1,148,847	(1,148,847)	-	-
15,555,779	(1,099,268)	14,456,511	976,443
(95,913)	239,396	143,483	313,956
5,319,223	25,760,671	31,079,894	2,665,081
(94,846)	(172,638)	(267,484)	-
<u>\$ 5,128,464</u>	<u>\$ 25,827,429</u>	<u>\$ 30,955,893</u>	<u>\$ 2,979,037</u>

**CITY OF PALESTINE, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2018**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,148	\$ -	\$ 515,407	\$ 521,555
Restricted cash and cash equivalents	-	-	654,927	654,927
Prepaid items	277,520	-	17,565	295,085
Receivables, net of allowance for estimated uncollectible accounts	1,645,547	-	80,416	1,725,963
Restricted receivables, net of allowance for estimated uncollectible accounts	-	58,069	44,543	102,612
Investments	710,469	-	242,115	952,584
Restricted investments	-	705,346	739,349	1,444,695
Due from other governments	52,629	-	-	52,629
Due from component unit	17,079	-	-	17,079
Due from other funds	205,165	-	146,311	351,476
Total assets	<u>\$ 2,914,557</u>	<u>\$ 763,415</u>	<u>\$ 2,440,633</u>	<u>\$ 6,118,605</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 438,362	\$ -	327,265	765,627
Due to other funds	146,311	-	136,788	283,099
Total liabilities	<u>584,673</u>	<u>-</u>	<u>464,053</u>	<u>1,048,726</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	267,320	55,173	-	322,493
Unavailable revenue - fines	296,615	-	-	296,615
Unearned revenue - Hot Pepper Festival	-	-	27,094	27,094
Total deferred inflows of resources	<u>563,935</u>	<u>55,173</u>	<u>27,094</u>	<u>646,202</u>
<b>FUND BALANCES</b>				
<b>Nonspendable:</b>				
Prepaid items	277,520	-	17,565	295,085
<b>Restricted for:</b>				
Economic development	-	-	873,090	873,090
Debt service	-	708,242	-	708,242
Capital projects	-	-	41,016	41,016
Public safety	-	-	159,824	159,824
Community services	-	-	17,429	17,429
<b>Committed for:</b>				
Community forest	-	-	50,415	50,415
Cemetery	-	-	191,700	191,700
Community development	-	-	622,585	622,585
<b>Unassigned</b>	1,488,429	-	(24,138)	1,464,291
Total fund balances	<u>1,765,949</u>	<u>708,242</u>	<u>1,949,486</u>	<u>4,423,677</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,914,557</u>	<u>\$ 763,415</u>	<u>\$ 2,440,633</u>	<u>\$ 6,118,605</u>

See the accompanying Notes to Financial Statements.



**CITY OF PALESTINE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2018**

Total fund balances - governmental funds balance sheet	\$ 4,423,677
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	
Capital assets, non-depreciable	1,839,336
Capital assets, depreciable	13,905,726
Deferred outflows of resources are not available to pay current period expenditures and therefore are deferred in the governmental funds financial statements.	
	2,257,220
Deferred inflows of resources are not due and payable in the current period and therefore are not reportable in the governmental funds financial statements.	
	(1,776,506)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Accounts payable	(578,713)
Accrued liabilities	(34,117)
Noncurrent liabilities due in one year	(1,601,279)
Noncurrent liabilities due in more than one year	(14,104,580)
Internal service funds are used by management to charge the costs of equipment replacement, health insurance, and workers' compensation to individual funds. Assets and liabilities of the internal service funds are included in governmental activities on the statement of net position.	
	797,700
Net position of governmental activities - statement of net assets	\$ 5,128,464

See the accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 5,503,777	\$ 1,454,335	\$ -	\$ 6,958,112
Sales	4,412,694	-	998,732	5,411,426
Franchise	1,091,211	-	-	1,091,211
Licenses, permits and fees	122,050	-	-	122,050
Intergovernmental	686,929	-	56,420	743,349
Charges for services	194,920	-	59,807	254,727
Fines and forfeitures	330,313	-	75,997	406,310
Contributions and donations	29	-	72,967	72,996
Investment	28,316	62,057	14,697	105,070
Other revenues	122,825	-	1,254	124,079
Total revenues	<u>12,493,064</u>	<u>1,516,392</u>	<u>1,279,874</u>	<u>15,289,330</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	2,008,490	-	43,024	2,051,514
Public safety	7,663,722	-	95,044	7,758,766
Community services	3,622,143	-	48,820	3,670,963
Community development	982,276	-	1,112,345	2,094,621
<b>Debt service:</b>				
Principal	-	730,000	-	730,000
Interest and fiscal charges	-	306,388	-	306,388
Total expenditures	<u>14,276,631</u>	<u>1,036,388</u>	<u>1,299,233</u>	<u>16,612,252</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,783,567)</u>	<u>480,004</u>	<u>(19,359)</u>	<u>(1,322,922)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	990,984	-	-	990,984
Transfers in	1,720,853	-	164,857	1,885,710
Transfers out	(158,380)	(879,236)	(164,268)	(1,201,884)
Total other financing sources (uses)	<u>2,553,457</u>	<u>(879,236)</u>	<u>589</u>	<u>1,674,810</u>
Net change in fund balances	769,890	(399,232)	(18,770)	351,888
Fund balances - beginning of year	996,059	1,107,474	1,968,256	4,071,789
Fund balances - end of year	<u>\$ 1,765,949</u>	<u>\$ 708,242</u>	<u>\$ 1,949,486</u>	<u>\$ 4,423,677</u>

See the accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Net change in fund balances - total governmental funds	\$ 351,888
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	260,306
Depreciation	(1,237,117)
Net effect of various transactions involving capital assets (e.g., sales, trade-ins and donations) is to decrease net position.	
	(206,712)
Some revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and they are not reported in the governmental funds balance sheet.	
	(45,879)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
	(463,397)
The issuance of long-term debt (e.g., bonds, certificates of obligation, etc.) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Principal expenditures	730,000
Interest expense	1,719
Change in compensated absences	35,485
Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined.	
Increase (decrease) in net pension liability	2,093,882
Increase (decrease) in deferred outflows related to pensions	(1,608,979)
Increase (decrease) in deferred inflows related to pensions	(456,963)
Governmental funds report all payments to OPEB benefits as expenditures. However, in the government-wide statement of activities the OPEB expense is actuarially determined.	
Increase (decrease) in net OPEB liability	(69,110)
Increase (decrease) in deferred outflows related to OPEBs	32,779
Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The net revenue is reported with governmental activities.	
	486,185
Change in net position of governmental activities - statement of activities	\$ (95,913)

See the accompanying Notes to Financial Statements.

# CITY OF PALESTINE, TEXAS

## STATEMENT OF FUND NET POSITION

### PROPRIETARY FUNDS

SEPTEMBER 30, 2018

	Enterprise Funds				Internal Service Funds
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 3,058	\$ -	\$ 6,215	\$ 9,273	\$ 783,299
Prepaid items	19,769	-	-	19,769	-
Receivables, net of allowance for estimated uncollectible accounts	831,096	444,200	717	1,276,013	-
Investments	324,500	148,158	41,062	513,720	-
Total current assets	<u>1,178,423</u>	<u>592,358</u>	<u>47,994</u>	<u>1,818,775</u>	<u>783,299</u>
<b>Noncurrent Assets:</b>					
Restricted cash and cash equivalents	217,656	-	-	217,656	-
Restricted investments	916,982	-	-	916,982	-
Investments	4,700,391	89,566	538,366	5,328,323	-
Capital assets:					
Nondepreciable	442,290	20,281	1,733,346	2,195,917	-
Depreciable, net of accumulated depreciation	23,077,855	473,289	1,500,815	25,051,959	1,732,108
Total capital assets, net of accumulated depreciation	<u>23,520,145</u>	<u>493,570</u>	<u>3,234,161</u>	<u>27,247,876</u>	<u>1,732,108</u>
Total noncurrent assets	<u>29,355,174</u>	<u>583,136</u>	<u>3,772,527</u>	<u>33,710,837</u>	<u>1,732,108</u>
Total assets	<u>30,533,597</u>	<u>1,175,494</u>	<u>3,820,521</u>	<u>35,529,612</u>	<u>2,515,407</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pension	297,182	22,044	18,199	337,425	-
Deferred outflows related to OPEBs	7,107	721	472	8,300	-
Total deferred outflows of resources	<u>304,289</u>	<u>22,765</u>	<u>18,671</u>	<u>345,725</u>	<u>-</u>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued liabilities	321,469	214,445	14,404	550,318	375,782
Accrued interest payable	30,120	-	344	30,464	14,404
Due to other governments	-	20,338	-	20,338	-
Due to other funds	-	-	-	-	68,377
Customer deposits	265,457	-	-	265,457	-
Long-term debt - due within one year	1,048,622	8,984	141,321	1,198,927	326,467
Total current liabilities	<u>1,665,668</u>	<u>243,767</u>	<u>156,069</u>	<u>2,065,504</u>	<u>785,030</u>
<b>Noncurrent Liabilities:</b>					
Long-term debt - due in more than one year	7,338,301	56,040	181,818	7,576,159	914,002
Total noncurrent liabilities	<u>7,338,301</u>	<u>56,040</u>	<u>181,818</u>	<u>7,576,159</u>	<u>914,002</u>
Total liabilities	<u>9,003,969</u>	<u>299,807</u>	<u>337,887</u>	<u>9,641,663</u>	<u>1,699,032</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pension	343,668	35,216	23,135	402,019	-
Deferred inflows related to OPEBs	3,613	370	243	4,226	18,675
Total deferred inflows of resources	<u>347,281</u>	<u>35,586</u>	<u>23,378</u>	<u>406,245</u>	<u>18,675</u>
<b>NET POSITION</b>					
Net investment in capital assets	16,525,145	493,570	3,002,903	20,021,618	769,258
Restricted for debt service	987,817	-	-	987,817	-
Restricted for capital projects	816,662	-	-	816,662	-
Unrestricted	3,157,012	369,296	475,024	4,001,332	28,442
Total Net Position	<u>\$ 21,486,636</u>	<u>\$ 862,866</u>	<u>\$ 3,477,927</u>	<u>\$ 25,827,429</u>	<u>\$ 797,700</u>

See the accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<b>Enterprise Funds</b>				Internal Service Funds
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 7,296,990	\$ 3,608,496	\$ 546,604	\$ 11,452,090	\$ 3,293,176
Total operating revenues	<u>7,296,990</u>	<u>3,608,496</u>	<u>546,604</u>	<u>11,452,090</u>	<u>3,293,176</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and services	2,699,862	2,572,949	182,281	5,455,092	2,935,003
Personnel	2,182,735	235,244	138,622	2,556,601	-
Depreciation	1,745,502	41,109	107,788	1,894,399	306,883
Total operating expenses	<u>6,628,099</u>	<u>2,849,302</u>	<u>428,691</u>	<u>9,906,092</u>	<u>3,241,886</u>
Operating income (loss)	<u>668,891</u>	<u>759,194</u>	<u>117,913</u>	<u>1,545,998</u>	<u>51,290</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	31,139	14,573	2,924	48,636	1,717
Interest expense and fiscal charges	(194,511)	-	(12,823)	(207,334)	(31,843)
Other non-operating revenues	943	-	-	943	-
Total non-operating revenues (expenses)	<u>(162,429)</u>	<u>14,573</u>	<u>(9,899)</u>	<u>(157,755)</u>	<u>(30,126)</u>
Income (loss) before contributions and transfers	<u>506,462</u>	<u>773,767</u>	<u>108,014</u>	<u>1,388,243</u>	<u>21,164</u>
Transfers in	216,656	-	-	216,656	465,021
Transfers (out)	<u>(795,000)</u>	<u>(360,000)</u>	<u>(210,503)</u>	<u>(1,365,503)</u>	<u>-</u>
Change in net position	<u>(71,882)</u>	<u>413,767</u>	<u>(102,489)</u>	<u>239,396</u>	<u>486,185</u>
Net position - beginning of year	21,708,401	462,967	3,589,303	25,760,671	584,061
Change in Accounting Principle (Note III-M)	(149,883)	(13,868)	(8,887)	(172,638)	(272,546)
Net position - end of year	<u>\$ 21,486,636</u>	<u>\$ 862,866</u>	<u>\$ 3,477,927</u>	<u>\$ 25,827,429</u>	<u>\$ 797,700</u>

See the accompanying Notes to Financial Statements.

# CITY OF PALESTINE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 1 of 2)

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Enterprise Funds				
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>					
Receipts from customers and users	\$ 7,343,051	\$ 3,540,387	\$ 560,001	\$ 11,443,439	\$ 3,442,575
Payments to suppliers	(2,949,655)	(2,532,065)	(210,072)	(5,691,792)	(3,181,584)
Payments to employees	(2,127,860)	(233,945)	(131,345)	(2,493,150)	-
Internal Activity - payments from other funds	1,920,221	113,862	24,789	2,058,872	473,842
Internal Activity - payments to other funds	(703,144)	(1,135,058)	-	(1,838,202)	(417,727)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>3,482,613</b>	<b>(246,819)</b>	<b>243,373</b>	<b>3,479,167</b>	<b>317,106</b>
<b>Cash Flows from Noncapital Financing Activities:</b>					
Transfer from other funds	216,656	-	-	216,656	465,021
Transfer to other funds	(795,000)	(360,000)	(210,503)	(1,365,503)	-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(578,344)</b>	<b>(360,000)</b>	<b>(210,503)</b>	<b>(1,148,847)</b>	<b>465,021</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Principal paid on capital debt	(835,000)	-	(106,620)	(941,620)	(359,450)
Interest and fiscal charges on capital debt	(197,452)	-	(13,029)	(210,481)	(38,551)
Acquisition and construction of capital assets	(1,089,242)	(40,202)	(47,801)	(1,177,245)	(88,910)
Insurance proceeds	943	-	-	943	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(2,120,751)</b>	<b>(40,202)</b>	<b>(167,450)</b>	<b>(2,328,403)</b>	<b>(486,911)</b>
<b>Cash Flows from Investing Activities:</b>					
Interest on investments	31,139	14,573	2,924	48,636	1,717
Proceeds from sales and maturities of investments	2,664,214	804,062	413,484	3,881,760	92,599
Purchase of investments	(3,674,481)	(171,614)	(281,802)	(4,127,897)	(842)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(979,128)</b>	<b>647,021</b>	<b>134,606</b>	<b>(197,501)</b>	<b>93,474</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(195,610)</b>	<b>-</b>	<b>26</b>	<b>(195,584)</b>	<b>388,690</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>416,324</b>	<b>-</b>	<b>6,189</b>	<b>422,513</b>	<b>394,609</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 220,714</b>	<b>\$ -</b>	<b>\$ 6,215</b>	<b>\$ 226,929</b>	<b>\$ 783,299</b>
<b>Ending Cash and Cash Equivalents:</b>					
Unrestricted cash and cash equivalents	3,058	-	6,215	9,273	783,299
Restricted cash and cash equivalents	217,656	-	-	217,656	-
	<b>\$ 220,714</b>	<b>\$ -</b>	<b>\$ 6,215</b>	<b>\$ 226,929</b>	<b>\$ 783,299</b>

See the accompanying Notes to Financial Statements.

# CITY OF PALESTINE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 2 of 2)

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Enterprise Funds				Internal Service Funds
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
<b>Operating income (loss)</b>	\$ 668,891	\$ 759,194	\$ 117,913	\$ 1,545,998	\$ 51,290
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>					
Depreciation	1,745,502	41,109	107,788	1,894,399	306,883
Changes in Operating Assets, Liabilities, and Deferred Inflows and Outflows:					
(Increase) Decrease in Operating Assets and Deferred Outflows					
Accounts receivable	50,190	(68,109)	13,797	(4,122)	149,399
Prepaid items	(18,234)	-	-	(18,234)	17,477
Due from other funds	1,920,221	113,862	24,789	2,058,872	473,842
Deferred Outflows	101,510	7,730	4,677	113,917	-
Increase (Decrease) in Current Liabilities and Deferred Inflows					
Accounts payable and accrued liabilities	(590,537)	(18,238)	(46,498)	(655,273)	(282,733)
Customer deposits	(4,129)	-	(400)	(4,529)	-
Due to other governments	-	20,338	-	20,338	-
Due to other funds	(703,144)	(1,135,058)	-	(1,838,202)	(417,727)
Deferred inflows	312,343	32,353	21,307	366,003	18,675
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 3,482,613</u>	<u>\$ (246,819)</u>	<u>\$ 243,373</u>	<u>\$ 3,479,167</u>	<u>\$ 317,106</u>

See the accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Palestine, Texas (the City) was incorporated in 1871. The City has operated under a "Home Rule Charter" which provides for a Council-Manager form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is also responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: general government, community development, fire and rescue, airport, code enforcement, library, maintenance, municipal court, police, streets and drainage, water distribution, wastewater collection/treatment, sanitation, and retail.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Palestine Economic Development Corporation (PEDC), although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Discretely Presented Component Unit**

The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based upon the aforementioned criteria, the City has one component unit.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**A. Reporting Entity, continued**

The Palestine Economic Development Corporation, Inc. (PEDC) has been included in the reporting entity as a discretely presented component unit. PEDC is a governmental entity that promotes the creation of new and expanded industry and manufacturing activity within the City. PEDC's board of directors is appointed by and serves at the discretion of the City Council. City Council approval is required for the annual budget and the issuance of any debt. In the event of dissolution, any assets of PEDC will be transferred to the City. PEDC makes monthly payments to the City for payroll and other administrative costs. In addition, during the year ended September 30, 2018, PEDC reimbursed the City for \$245,255 in project costs. Separate financial statements of the PEDC may be obtained from the Finance Department of the City.

**B. Financial Statement Presentation**

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- **Net Investment in Capital Assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**C. Government-Wide and Fund Financial Statements**

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**C. Government-Wide and Fund Financial Statements, continued**

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized 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 equity, revenues, and expenditures or expenses, as appropriate. The following is a description of the various funds:

**Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed. The proprietary funds used by the City include the following:

**General Fund**

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, community services, and community development.

**Special Revenue Funds**

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

**Debt Service Fund**

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

**Capital Projects Funds**

The capital projects funds are used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects funds are considered nonmajor funds for reporting purposes.

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary funds follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**C. Government-Wide and Fund Financial Statements, continued**

The proprietary funds used by the City include the following:

**Enterprise Funds**

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations, solid waste collection and disposal and retail mall operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water fund, wastewater fund, sanitation fund, and retail fund are considered major funds for reporting purposes.

Additionally, the government reports the following fund types:

**Internal Service Funds**

Internal service funds account for services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. These funds account for supply inventory management, equipment replacement programs, workers' compensation insurance, unemployment, and employee health insurance.

Neither, fiduciary funds nor component units that are fiduciary in nature, are included in government-wide financial statements.

**D. Measurement Focus and Basis of Accounting**

The government-wide statement of net position and statement of activities, component units, and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Under this basis of accounting, equity consists of net position, and operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental funds. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and 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 available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by provider have been met.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period, are all considered to be susceptible to accrual and, thus, have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**D. Measurement Focus and Basis of Accounting, continued**

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The statements of net position, statements of activities, and financial statements of proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Equity**

**1. Deposits and Investments**

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

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, investments are recorded at fair value. Consistent with GASB Statement 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City is disclosed in Note III to the financial statements.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Money market mutual funds that meet certain criteria
- Statewide investment pools
- U.S. and State guaranteed debt
- Certificates of Deposit (CDs)
- Collateralized bank accounts
- Obligations of the State of Texas

**2. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government."

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The city provides for an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience. All trade receivables are shown net of an allowance for uncollectibles.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Equity, Continued**

**2. Receivables and Payables, Continued**

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year. Revenue from taxes assessed is recorded as deferred revenue on October 1. The deferred revenue from taxes is then recognized as revenue during the year as the taxes are actually received. All delinquent property taxes receivable are assets of the general and debt service funds.

**3. Inventories and Prepaid Items**

The costs of governmental fund-type inventories are recorded as expenditures when the related liability is incurred (i.e. the purchase method). Certain payments to vendors reflecting costs applicable to future accounting periods (i.e. prepaid expenditures) are recognized as expenditures when utilized. Prepaid items are accounted for using the consumption method. In governmental funds, reported inventories and prepaid items do not represent available spendable resources and are, therefore, equally offset by a nonspendable fund balance account.

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Amortization from assets acquired with capital leases is reported as depreciation in proprietary funds.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life (in years)</u>
Buildings	20-50
Improvements	5-50
Machinery & equipment	5-10
Water & sewer system	20-30
Infrastructure	40-50

**5. Restricted Assets**

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Equity, Continued**

**5. Restricted Assets, Continued**

The balances of restricted assets at September 30, 2018 are as follows:

	Governmental Activities	Business-type Activities	Total
Debt service	\$ 763,415	\$ 916,982	\$ 1,680,397
Special revenue purposes	1,397,803	-	1,397,803
Loan proceeds for capital projects	41,016	217,656	258,672
Total restricted assets	\$ 2,202,234	\$ 1,134,638	\$ 3,336,872

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

**6. Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**7. 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. The long-term debt consists primarily of bonds payable, capital leases payable, pension liability, OPEB liability, and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental funds, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary funds, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Issuance costs are expenses as incurred.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Equity, Continued**

**8. 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has two items that qualify for reporting in this category. It is the deferred outflows related to pension and deferred outflows related to OPEB reported in the government-wide statement of net position and the proprietary funds statement of net position. This is the difference between expected and actual economic experience, difference in actuarial assumptions, difference between projected and actual investment earnings, and contributions subsequent to the measurement date. These amounts are 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes and municipal court revenue and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Unearned revenue is comprised of booth deposits received by the City for the Hot Pepper Festival in October of the subsequent year. Unearned revenue for the component unit consists of rent collected from a tenant one month in advance. These amounts are deferred and recognized as inflows of resources in the periods the transactions take place. Deferred inflows related to pension and OPEB represent the difference between expected and actual economic experience and the difference between projected and actual investments earnings. These amounts are deferred and amortized over the actuarial determined recognition period.

**9. Fund Equity**

In the fund financial statements, governmental funds report fund balance categorized as nonspendable, restricted, committed, assigned or unassigned.

- **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 an ordinance 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.
- **Assigned fund balance** - represents amounts the City intends to use for specific purposes as expressed by the City Council. The City Council may also assign fund balance when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. 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.

The City's minimum fund balance policy targets that fund balance shall be maintained at a level of 25 percent of general fund expenditures for the general fund and 15 percent of overall enterprise funds' expenditures for all enterprise funds.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Equity, Continued**

**9. Fund Equity, Continued**

When an expenditure is incurred for a purpose for which more than one fund balance classification could be used, the City considers the expenditure to be made from the most restrictive classification first.

**10. Estimates**

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

**11. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. However, encumbrances in the governmental funds lapse at the end of each year and are re-budgeted during the next fiscal year.

**12. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position are recognized in the period the 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.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The following special revenue funds have legally adopted budgets: tourism & civic center, municipal court security, municipal court technology, police confiscated money, cemetery, economic development grant, police grants, sales tax repairs and maintenance, and special events. In addition, the debt service fund has a legally adopted budget. The special revenue funds are not considered departments for budgetary purposes. The original budget is adopted by the City Council prior to the beginning of the year. Budgetary control is established at the fund level. The City Manager is authorized to transfer appropriations within a department without seeking the approval of City Council provided the transfer does not result in a net increase in total appropriations. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

**B. Deficit Fund Balance/Net Position**

For the year ended September 30, 2018, deficit fund balances of \$24,088 and net position of \$52,559 was reported in the special events fund and health insurance fund, respectively.

**C. Expenditures Over Appropriations**

The City's economic development grant fund and police grants fund were over budget by \$119,578 and \$12,455, respectively.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of yearend, the City had the following cash and investments:

Primary Government	
Cash and cash equivalents	\$ 1,314,127
Restricted cash and cash equivalents	872,583
Investments	6,794,627
Restricted investments	<u>2,361,677</u>
Total primary government	11,343,014
Component Unit	
Cash and cash equivalents	<u>1,414,458</u>
Total primary government	1,414,458
Total Cash and Investments	<u><u>\$ 12,757,472</u></u>

**Custodial credit risk.** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of yearend, the City and its component unit's deposits were covered by Federal Depository Insurance or by collateral held by a third-party custodian.

In the case of investments, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments include the Texas Short-Term Asset Reserve Investment Pool ("TexSTAR"), U.S. government securities, and certificates of deposit.

**Credit risk.** This is the risk that an issuer of an investment will be unable to fulfill its obligations. As of September 30, 2018, the City's investments in TexSTAR were rated AAAM by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

**Interest rate risk.** This is the risk that changes in interest rates will adversely affect the fair value of investments. The City has investments in certificates of deposit with staggered maturity dates and has invested in TexSTAR. This strategy protects the City's investments from changes in market valuation and from unanticipated rate movements.

**Foreign currency risk.** This is the risk that exchange rates will adversely affect the fair value of an investment. The City is not exposed to foreign currency risk.

**Concentration of credit risk.** This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). The City attempts to avoid over-investment in local government pools and matches a portion of its investments with anticipated cash flow requirements. Approximately 15% of the City's investments at September 30, 2018 were in certificates of deposit at Prosperity Bank. As noted above, these certificates of deposit were full collateralized at yearend.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**A. Deposits and Investments, Continued**

At yearend, the City's investment balances were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Credit Risk
Primary government			
TexSTAR	\$3,929,263	0.08	AAAm
Certificates of deposit	4,163,558	1.72	N/A
U.S. government securities	1,063,483	N/A	N/A
Total primary government	<u>\$9,156,304</u>		

**Certificates of Deposits**

The City holds numerous certificates of deposits with maturities ranging from one to three years. These certificates are carried at cost. The City management's position is the fair value of the certificates of deposit would not be materially different than cost.

**TexSTAR**

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and TexSTAR use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of TexSTAR shares.

A summary of the City's investments under the requirements of the fair value hierarchy follows:

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$4,163,558	\$ -	\$4,163,558
Texas Government Investment Pool	-	3,929,263	-	3,929,263
U.S. Government Securities	-	1,063,483	-	1,063,483
Total Investments	<u>\$ -</u>	<u>\$9,156,304</u>	<u>\$ -</u>	<u>\$9,156,304</u>

Certificates of deposit categorized as Level 2 are valued by discounting the related cash flows based on current yields similar instruments with comparable durations considering the credit-worthiness of the issuer. U.S. government securities categorized as Level 2 are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Texas government investment pools categorized as Level 2 are based on amortized costs, which generally approximates fair value.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**B. Receivables**

The following comprise receivable balances at yearend:

Taxes and Accounts Receivable	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Water and Wastewater Fund	Sanitation Fund	Retail Fund	Total	Component Unit
Ad valorem tax	\$ 549,976	\$ 93,751	\$ -	\$ -	\$ -	\$ -	\$ 643,727	\$ -
Sales tax	731,979	-	80,416	-	-	-	812,395	160,832
Franchise tax	305,618	-	-	-	-	-	305,618	-
Municipal court	1,180,786	-	-	-	-	-	1,180,786	-
Due from other governments	35,550	-	-	-	-	-	35,550	-
Due from other agencies	-	-	32,494	-	-	-	32,494	-
Due from component unit	17,079	-	-	-	-	-	17,079	-
Accounts	47,059	-	12,049	890,735	473,523	28,989	1,452,355	-
Gross receivables	2,868,047	93,751	124,959	890,735	473,523	28,989	4,480,004	160,832
Less: allowance for uncollectibles	(1,152,792)	(35,682)	-	(59,639)	(29,323)	(28,272)	(1,305,708)	-
Total taxes and accounts receivable, net	\$ 1,715,255	\$ 58,069	\$ 124,959	\$ 831,096	\$ 444,200	\$ 717	\$ 3,174,296	\$ 160,832

**C. Operating Leases**

Operating Leases-Lessee

The City is obligated under multiple operating leases for copiers, printers, and mail machines. These leases are considered to be operating for accounting purposes. Lease expenditures for this equipment for the year totaled \$52,164. Monthly rental amounts range from \$74 to \$528. The terms of leases range from 48 months to 60 months. Future minimum lease payments on non-cancelable leases are as follows:

Year	Amount
2019	\$ 30,888
2020	30,888
2021	26,961
2022	19,214
2023	10,262
Total	<u>\$ 118,213</u>

Operating Leases-Lessor

The City has leasing arrangements with 15 tenants in the City-owned mall. The terms of lease arrangements range from month-to-month to 60 months. Monthly rental amounts range from \$433 to \$14,998. Future minimum rentals on non-cancelable leases are as follows:

Year	Amount
2019	\$ 312,764
2020	239,135
2021	12,508
2022	13,066
Total	<u>\$ 577,473</u>

The cost of the mall, excluding the city library in the mall, is \$4,096,791. The total amount of accumulated depreciation on the mall at yearend is \$862,630.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**C. Operating Leases, Continued**

Operating Leases-Lessor, Continued

In March of 2016, the Palestine Economic Development Corporation entered into a lease agreement to rent one of its buildings at the Willow Creek Business Park to a third party (tenant). The term of the lease is five years, but the tenant has the right to terminate the lease prior to expiration of the term but no earlier than the 36<sup>th</sup> month of the lease term by giving a 120 days advance notice and paying an early termination fee of \$206,739. Rent is received in equal monthly installments of \$16,321.50 per month for the first year and \$17,228.25 per month for years two through five. In addition, as an incentive to the tenant, rent for the following months is abated: year one, month 12; year 4 month 1; year 5, month 1. Future minimum rentals of noncancelable portion of the lease are as follows:

Year	Amount
2019	\$ 189,511
Total	\$ 189,511

The cost of the building is \$3,454,979, and the total amount of accumulated depreciation at yearend is \$1,097,336 resulting in a net book value of \$2,357,643.

In February of 2018, the Palestine Economic Development Corporation also entered into a lease agreement to rent office space at the Willow Creek Business Park to a third party. The term of the lease is twelve months, but the tenant may extend the lease beyond the expiration date on a month-to-month basis. Rent is received in equal monthly installments of \$1,500 per month. In addition, a security deposit of \$1,500 was received at the inception of the lease. Future minimum rentals of the noncancelable lease are as follows:

Year	Amount
2019	\$ 6,000
Total	\$ 6,000

The cost of the building is \$432,090, and the total amount of accumulated depreciation at yearend is \$43,209 resulting in a net book value of \$388,881.

**D. Capital Leases**

The City is obligated under four capital leases for various machinery and equipment including a patch truck, excavator, police cars, utility vehicles, a fire truck, and various police communications equipment. Outstanding leases at September 30, 2018 were as follows.

Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
Capital leases:					
Citizens 1st Bank	10/15/2018	3.240%	Ad valorem tax revenue	\$ 49,730	\$ 46,668
Southside Bank	3/13/2019	2.865%	Ad valorem tax revenue	127,946	124,383
Southside Bank	3/31/2021	2.370%	Ad valorem tax revenue	328,652	313,667
Southside Bank	4/11/2026	3.247%	Ad valorem tax revenue	550,596	478,132
Total				\$ 1,056,924	\$ 962,850

Pledged revenue recognized during the year is equal to principal and interest of \$398,004 paid during the fiscal year ended September 30, 2018.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**D. Capital Leases, Continued**

Equipment acquired through capital leases and recorded in capital assets in the equipment replacement fund is as follows:

Machinery and equipment	\$ 7,126,002
Less: accumulated depreciation	<u>(5,532,828)</u>
Total assets acquired through capital leases	<u>\$ 1,593,174</u>

Annual debt service requirements to internal service capital leases are as follows:

Year Ending September 30	Capital Leases	
	Governmental Activities	
	Principal	Interest
2019	\$ 326,467	\$ 29,584
2020	159,567	18,808
2021	163,831	14,544
2022	58,662	10,163
2023	60,567	8,258
2024-2028	<u>193,756</u>	<u>12,717</u>
Total	<u>\$ 962,850</u>	<u>\$ 94,074</u>

**E. Capital Assets**

A summary of changes in capital assets for the yearend were as follows:

<b>Governmental Activities:</b>	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land	\$ 2,118,457	\$ -	\$ (279,121)	\$ 1,839,336
Total assets not being depreciated	\$ 2,118,457	\$ -	\$ (279,121)	\$ 1,839,336
Capital assets being depreciated:				
Buildings	\$ 5,578,026	\$ -	\$ -	\$ 5,578,026
Improvements	10,375,587	79,870	-	10,455,457
Machinery and Equipment	11,721,354	200,498	-	11,921,852
Infrastructure	32,484,401	141,257	-	32,625,658
Total assets being depreciated	60,159,368	421,625	-	60,580,993
Accumulated depreciation:				
Buildings	(4,340,388)	(64,912)	-	(4,405,300)
Improvements	(7,539,638)	(345,870)	-	(7,885,508)
Machinery and Equipment	(8,436,394)	(546,546)	-	(8,982,940)
Infrastructure	(23,082,739)	(586,672)	-	(23,669,411)
Total accumulated depreciation	(43,399,159)	(1,544,000)	-	(44,943,159)
Net capital assets being depreciated	\$ 16,760,209	\$ (1,122,375)	\$ -	\$ 15,637,834

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**E. Capital Assets, Continued**

Total governmental activities capital assets, net of accumulated depreciation	\$ 17,477,170
Less associated debt	<u>(8,951,850)</u>
Net Investment in Capital Assets	<u><u>\$ 8,525,320</u></u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 256,298
Public safety	436,676
Community services	819,992
Community development	<u>31,034</u>
Total governmental activities depreciation expense	<u><u>\$ 1,544,000</u></u>

<b>Business-type Activities:</b>	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated:				
Land	\$ 1,800,468	\$ -	\$ -	\$ 1,800,468
Construction-in-progress	<u>500,300</u>	<u>810,020</u>	<u>(914,872)</u>	<u>395,448</u>
Total assets not being depreciated	<u><u>\$ 2,300,768</u></u>	<u><u>\$ 810,020</u></u>	<u><u>\$ (914,872)</u></u>	<u><u>\$ 2,195,916</u></u>
Capital assets being depreciated:				
Buildings	\$ 10,432,817	\$ 88,003	\$ -	\$ 10,520,820
Machinery and Equipment	1,455,744	172,193	-	1,627,937
Infrastructure	<u>46,467,574</u>	<u>1,021,901</u>	<u>-</u>	<u>47,489,475</u>
Total assets being depreciated	58,356,135	1,282,097	-	59,638,232
Accumulated depreciation:				
Buildings	(7,729,039)	(248,519)	-	(7,977,558)
Machinery and Equipment	(354,934)	(174,988)	-	(529,922)
Infrastructure	<u>(24,607,900)</u>	<u>(1,470,892)</u>	<u>-</u>	<u>(26,078,792)</u>
Total accumulated depreciation	<u><u>(32,691,873)</u></u>	<u><u>(1,894,399)</u></u>	<u><u>-</u></u>	<u><u>(34,586,272)</u></u>
Net capital assets being depreciated	<u><u>\$ 25,664,262</u></u>	<u><u>\$ (612,302)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,051,960</u></u>

Total business-type activities capital assets, net of accumulated depreciation	\$ 27,247,876
Less associated debt	<u>(7,226,258)</u>
Net Investment in Capital Assets	<u><u>\$ 20,021,618</u></u>

Depreciation was charged to business-type activities as follows:

Business-type activities:	
Water and wastewater	\$ 1,745,502
Sanitation	41,109
Retail	<u>107,788</u>
Total business-type activities depreciation expense	<u><u>\$ 1,894,399</u></u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**E. Capital Assets, Continued**

**Construction Projects**

As of September 30, 2018, the City had one construction project, water filter rehab. At yearend, the City's commitments with contractors are as follows:

Project	Spent To-Date	Estimated Remaining Commitment
Water Filter Rehab	\$ 331,775	\$ 448,759

**Component Unit**

A summary of changes in capital assets for the yearend were as follows:

Component Unit:	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land - developed	\$ 663,619	\$ -	\$ (6,430)	\$ 657,189
Land - undeveloped	338,248	-	-	338,248
Total assets not being depreciated	\$ 1,001,867	\$ -	\$ (6,430)	\$ 995,437
Capital assets being depreciated:				
Buildings	\$ 4,323,629	\$ -	\$ -	\$ 4,323,629
Machinery and Equipment	108,646	-	-	108,646
Total assets being depreciated	4,432,275	-	-	4,432,275
Accumulated depreciation:				
Buildings	(1,387,243)	(125,695)	-	(1,512,938)
Machinery and Equipment	(87,212)	(3,326)	-	(90,538)
Total accumulated depreciation	(1,474,455)	(129,021)	-	(1,603,476)
Net capital assets being depreciated	\$ 2,957,820	\$ (129,021)	\$ -	\$ 2,828,799
Total governmental activities capital assets, net of accumulated depreciation				\$ 3,824,236
Less associated debt				(2,390,000)
Net Investment in Capital Assets				\$ 1,434,236

Depreciation was charged to the component unit as follows:

Component unit:	
EDC	\$ 129,021
Total depreciation expense	\$ 129,021

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt**

The following is a summary of changes in the City's total governmental long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

<b>Governmental Activities:</b>	Balance			Balance 9/30/2018	Due Within One Year
	10/1/2017	Additions	Retirements		
Certificates of obligation	\$ 8,719,000	\$ -	\$ (730,000)	\$ 7,989,000 *	\$ 753,000
Capital leases	1,322,300	-	(359,450)	962,850 *	326,467
Compensated absences	1,468,078	833,806	(869,291)	1,432,593	848,279
Net pension liability	7,862,896	3,347,780	(5,441,662)	5,769,014	-
Net OPEB obligation	722,364	107,400	(33,219)	796,545	-
<b>Total long-term debt</b>	<b>\$ 20,094,638</b>	<b>\$ 4,288,986</b>	<b>\$ (7,433,622)</b>	<b>\$ 16,950,002</b>	<b>\$ 1,927,746</b>

Long-term debt due in more than one year \$ 15,022,256

\* Debt associated with capital assets \$ 8,951,850

Governmental long-term debt was comprised of the following debt which was issued for general infrastructure improvements, water and wastewater system improvements, and the purchase and renovation of the mall. Pledged revenue recognized during the year is equal to principal and interest of \$1,032,888 paid during the fiscal year ended September 30, 2018.

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Pledged Collateral</u>	<u>Pledged Revenue</u>	<u>Outstanding Balance</u>
Certificates of Obligation:					
Series 2008	2/15/2028	3.874%	Ad valorem tax revenue	\$ 1,459,486	\$ 1,210,000
Series 2010A Taxable	2/15/2030	4.500%	Ad valorem tax revenue	2,135,710	1,635,000
Series 2010B	2/15/2030	3.250%	Ad valorem tax revenue	3,462,216	2,745,000
Series 2010A Non-taxable	2/15/2030	4.500%	Ad valorem tax revenue	1,004,927	774,000
Series 2014	2/15/2021	1.750%	Ad valorem tax revenue	1,673,344	1,625,000
Total				<u>\$ 9,735,683</u>	<u>\$ 7,989,000</u>

The City is not obligated in any manner for special assessment debt.

The City incurred and charged to expense \$333,012 in interest expense on governmental activities long-term debt for the fiscal year ended September 30, 2018.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, continued**

Annual debt service requirements to business-type certificates of obligation are as follows:

Year Ending September 30	Certificates of Obligation	
	Governmental Activities	
	Principal	Interest
2019	\$ 753,000	\$ 281,683
2020	1,083,000	256,478
2021	1,118,000	226,137
2022	488,000	200,715
2023	514,000	179,957
2024-2028	2,941,000	553,863
2029-2033	1,092,000	47,850
Total	\$7,989,000	\$1,746,683

The following is a summary of changes in the City's total business-type long-term liabilities for the year.

	Balance 10/1/2017	Additions	Retirements	Balance 9/30/2018	Due Within One Year
<b>Business-type Activities:</b>					
Certificates of obligation	\$ 2,730,000	\$ -	\$ (280,000)	\$ 2,450,000 *	\$ 300,000
Revenue bonds	5,437,878	-	(661,620)	4,776,258 *	688,759
Compensated absences	180,774	211,246	(175,353)	216,667	210,168
Net pension liability	1,615,695	757,597	(1,231,439)	1,141,853	-
Net OPEB obligation	173,520	24,305	(7,517)	190,308	-
Total long-term debt	\$10,137,867	\$ 993,148	\$ (2,355,929)	\$ 8,775,086	\$ 1,198,927

Long-term debt due in more than one year \$ 7,576,159

\* Debt associated with capital assets \$ 7,226,258

Business-type long-term debt was comprised of the following debt which was issued for water and wastewater system improvements, the purchase of the mall and land, and facility improvements. Pledged revenue recognized during the year is equal to principal and interest of \$1,152,099 paid during the fiscal year ended September 30, 2018.

Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
<b>Revenue Bonds:</b>					
Series 2003	7/15/2022	0.00% - 3.10%	Water and sewer revenue	\$ 1,577,990	\$ 1,460,000
Series 2006	8/15/2025	2.15% - 2.95%	Water and sewer revenue	408,143	365,000
Series 2007	7/15/2027	1.85% - 2.65%	Water and sewer revenue	2,660,534	2,350,000
Series 2009	7/15/2029	0.15% - 4.25%	Water and sewer revenue	463,220	370,000
Series 2010	9/15/2020	4.50%	Retail lease revenue	242,498	231,258
<b>Certificates of Obligation:</b>					
Series 2011	8/15/2019	2.50%	Ad valorem tax revenue	97,375	95,000
Series 2012	8/15/2023	1.58%	Ad valorem tax revenue	303,746	290,000
Series 2013	2/15/2028	2.15%	Ad valorem tax revenue	2,313,595	2,065,000
Total				\$ 8,067,101	\$ 7,226,258

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, continued**

The City incurred and charged to expense \$207,334 in interest expense on business-type activities long-term debt for the fiscal year ended September 30, 2018.

Annual debt service requirements to business-type certificates of obligation and revenue bonds are as follows:

Certificates of Obligation			Revenue Bonds		
Year Ending	Business-type Activities		Year Ending	Business-type Activities	
September 30	Principal	Interest	September 30	Principal	Interest
2019	\$ 300,000	\$ 49,796	2019	\$ 688,759	\$ 135,495
2020	210,000	43,248	2020	827,499	114,963
2021	230,000	38,885	2021	730,000	92,353
2022	235,000	34,175	2022	745,000	71,733
2023	255,000	29,274	2023	345,000	50,285
2024-2028	1,220,000	69,338	2024-2028	1,400,000	109,598
2029-2033	-	-	2029-2033	40,000	1,700
Total	<u>\$2,450,000</u>	<u>\$ 264,716</u>	Total	<u>\$4,776,258</u>	<u>\$ 576,127</u>

The following is a summary of changes in the Palestine Economic Development Corporation's total long-term liabilities for the year.

Component Unit:	Balance	Additions	Retirements	Balance	Due Within
	10/1/2017			9/30/2018	One Year
Revenue bonds	\$ 2,810,000	\$ -	\$ (420,000)	\$ 2,390,000 *	\$ 430,000
Total long-term debt	<u>\$ 2,810,000</u>	<u>\$ -</u>	<u>\$ (420,000)</u>	<u>\$ 2,390,000</u>	<u>\$ 430,000</u>

Long-term debt due in more than one year \$ 1,960,000

\* Debt associated with capital assets \$ 2,390,000

The Palestine Economic Development Corporation's long-term debt was comprised of the following debt issues. The following debt was issued for the acquisition and development of the business park, construction of a commercial office building, and the purchase of another commercial office building. Pledged revenue recognized during the year is equal to principal and interest of \$508,714 paid during the fiscal year ended September 30, 2018.

Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
Revenue Bonds:					
Series 2012A	8/15/2020	1.70%	Sales tax revenue	\$ 240,100	\$ 235,000
Series 2012B	8/15/2026	3.35%	Sales tax revenue	2,008,957	1,750,000
Series 2016	8/15/2025	3.63%	Sales tax revenue	465,258	405,000
Total				<u>\$ 2,714,315</u>	<u>\$ 2,390,000</u>

The Palestine Economic Development Corporation incurred and charged to expense \$87,539 in interest expense on long-term debt for the fiscal year ended September 30, 2018.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, continued**

Annual debt service requirements to revenue bonds are as follows:

Year Ending September 30	Revenue Bonds	
	Principal	Interest
2019	\$ 430,000	\$ 77,322
2020	335,000	65,582
2021	285,000	55,278
2022	290,000	45,562
2023	300,000	35,679
2024-2028	750,000	44,892
Total	<u>\$2,390,000</u>	<u>\$ 324,315</u>

**Federal Arbitrage**

General obligation bonds, combination tax and revenue bonds and certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

**G. Interfund Transactions**

The composition of interfund balances as of September 30, 2018, is as follows:

Due to:	Due from			Total
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ 136,788	\$ 68,377	\$ 205,165
Nonmajor Governmental Funds	146,311	-	-	146,311
Total	<u>\$ 146,311</u>	<u>\$ 136,788</u>	<u>\$ 68,377</u>	<u>\$ 351,476</u>

An interfund balance between the general fund and the sales tax and repairs maintenance fund exists due to a miscalculation in the allocation of sales tax at the beginning of the year. All other interfund balances are short-term loans to cover operating expenses.

Transfers between funds during the year were as follows:

Transfers In:	Transfers Out						Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Water & Wastewater Fund	Sanitation Fund	Retail Fund	
General Fund	\$ -	\$ 370,350	\$ 45,000	\$ 795,000	\$ 300,000	\$ 210,503	\$ 1,720,853
Nonmajor Governmental Funds	45,589	-	119,268	-	-	-	164,857
Water and Wastewater Fund	70,000	86,656	-	-	60,000	-	216,656
Internal Service Funds	42,791	422,230	-	-	-	-	465,021
Total	<u>\$ 158,380</u>	<u>\$ 879,236</u>	<u>\$ 164,268</u>	<u>\$ 795,000</u>	<u>\$ 360,000</u>	<u>\$ 210,503</u>	<u>\$ 2,567,387</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**G. Interfund Transactions, continued**

Transfers to the general fund were subsidies for administrative expenditures. Other amounts transferred between funds related to amounts collected by the nonmajor governmental funds and enterprise funds are for various governmental expenditures and utility expenses.

**H. 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; and natural disasters, for which the City participates in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the two years prior to this report. See footnote III-N for information on current year settlements.

The City established a limited risk management program for health benefit claims in October 2006. A separate fund was established to account for the City's self-insurance activities and the accumulation of resources to satisfy potential claims of subsequent periods. The City's exposure is limited due to stop-loss protection and reinsurance. Changes in the balance of claim liabilities during the year are as follows:

	2018	2017
Beginning claims payable	\$ 1,489,624	\$ 705,155
Claims incurred	2,444,280	2,903,326
Claims incurred but not reported	172,162	558,617
Claims paid	(3,933,904)	(2,677,474)
Ending claims payable	\$ 172,162	\$ 1,489,624

In the subsequent year, the City transitioned to a 3<sup>rd</sup> party health insurance plan. Estimated claims payable at September 30, 2018 are based on actual claims paid out in the 3-month period subsequent to yearend during the transition to the new 3<sup>rd</sup> party insurance.

**I. Contingent Liabilities**

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In addition to the lawsuit described in Note III-N, the City is also a defendant in another lawsuit. Although the outcome of this lawsuit is not presently determinable, it is the opinion of the City's management that resolution of this matter will not have a material adverse effect on the financial condition of the City.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System**

Plan Description

The City of Palestine participates as one of 883 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.tmr.com](http://www.tmr.com).

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

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 payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	Plan Year 2017
Employee deposit rate	6%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20
Updated service credit	100% repeating
Annuity increase (to retirees)	70% of CPI

*Employees covered by benefit terms*

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	153
Inactive employees entitled to but not yet receiving benefits	117
Active employees	185
Total	455

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, continued**

Contributions

The contribution rates for City 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 City Council. 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 of the City of Palestine were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Palestine were 14.18% and 13.71%, respectively, in each calendar year 2017 and 2018. The City's contributions to TMRS for the fiscal year ended September 30, 2018, were \$1,174,756 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality 16 rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumptions for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and one-time change to the amortization policy. 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 PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, continued**

*Actuarial Assumptions, 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	<u>100.00%</u>	

*Discount Rate*

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, continued**

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2016	\$ 43,767,484	\$ 34,288,892	\$ 9,478,592
Changes for the year:			
Service Cost	1,162,638	-	1,162,638
Interest	2,916,862	-	2,916,862
Changes in current period benefits	-	-	-
Difference between expected and actual experience	(218,064)	-	(218,064)
Changes in assumptions	-	-	-
Contributions - employer	-	1,195,913	(1,195,913)
Contributions - employee	-	507,702	(507,702)
Net investment income	-	4,751,422	(4,751,422)
Benefit payments	(2,272,078)	(2,272,078)	-
Administrative expense	-	(24,629)	24,629
Other changes	-	(1,248)	1,248
Balance at December 31, 2017	<u>\$ 45,356,842</u>	<u>\$ 38,445,974</u>	<u>\$ 6,910,868</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$ 13,335,195	\$ 6,910,868	\$ 1,689,082

*Pension Plan Fiduciary Net Position*

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

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

For the year ended September 30, 2018, the City recognized pension expense of \$1,153,087.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, continued**

At September 30, 2018, 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
Difference between expected and actual economic experience	\$ 29,529	\$ 227,620
Difference in actuarial assumptions	23,918	-
Difference between projected and actual investment earnings	994,162	1,950,905
Contributions subsequent to the measurement date	895,149	-
Total	\$ 1,942,758	\$2,178,525

\$895,149 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Net deferred</u> <u>outflows</u> <u>(inflows)</u> <u>of resources</u>
2019	\$ (40,557)
2020	(81,869)
2021	(521,103)
2022	(487,387)
Total	\$ (1,130,916)

**K. Other Post-Employment Benefit Plans**

**1. City Retiree Health Care Plan**

Plan Description

The City administers a single-employer defined benefit Other Post-Employment Benefits (OPEB) plan that will allow the retiree to pay their premium for continuation of the medical and dental insurance coverage. The plan is known as the City Retiree Health Care Plan. In order to be eligible for this benefit, the retiree must separate from service as a current recipient of retirement benefits from the TMRS and with at least five years of service with the City at age 60 or at least 20 years of service at any age. The health care benefit of the plan is available to the spouse if they were enrolled in the plan immediately before retirement or disability.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**1. City Retiree Health Care Plan, continued**

Benefits Provided

City employees and spouses who are enrolled in the City-Sponsored health plan immediately before retirement or disability are eligible to continue coverage for the following periods of time.

<u>Participant</u>	<u>Length of Coverage</u>
Retiree	Retirees are eligible to continue medical coverage until age 65. If coverage is voluntarily waived, it cannot be reinstated.
Spouse	Spouses are eligible to continue medical coverage until age 65. If spouse coverage is voluntarily waived, it cannot be reinstated.
Children	Eligible dependent children may continue medical coverage while the retiree is covered. If child coverage is voluntarily waived, it cannot be reinstated.
Surviving Spouse Retiree	Surviving spouses are eligible to continue medical coverage until age 65. If coverage is voluntarily waived, it cannot be reinstated.

Employees Covered by Benefit Terms

At the October 1, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	5
Active employees	<u>188</u>
Total	193

Contributions

The City has elected to finance the City Retiree Health Care Plan on a pay-as-you-go basis. The City contributed \$8,187 to the OPEB plan during the year which is the expected claims and administration costs less deductibles, coinsurance, and contributions for inactive participants. This amount is equal to the actuarially determined contribution (AOL) which is the recommended contribution to fully fund postemployment healthcare benefits of both active and inactive participants.

The table below provides the required monthly inactive participant contributions for the City-sponsored Medical plan:

<u>Coverage Tier</u>	<u>2017-2018</u>
Retiree	\$ 850.96
Retiree + Spouse	\$ 1,927.75
Retiree + Children	\$ 1,375.43
Family	\$ 2,465.43
Surviving Spouse	\$ 850.96

Net OPEB Liability

The City's Net OPEB Liability (NOL) was measured as of September 30, 2018, and the Total OPEB Liability (TOL) used to calculate the Net OPEB Liability was determined by an actuarial valuation as of October 1, 2017.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**1. City Retiree Health Care Plan, continued**

*Actuarial Assumptions*

The Total OPEB Liability in the October 1, 2017 actuarial valuation was determined using the following actuarial assumptions:

Benefits Valued	Retiree medical and prescription drug benefits are valued until retiree age 65 and retiree spouse medical and prescription drug benefits until spouse age 65. Dental benefits were not valued because retirees and their covered dependents are required to contribute the full group dental rates which are assumed to cover their full expected costs of dental coverage.
Discount Rate	4.24% (20-year municipal bond index for pay-as-you-go funding)
Actuarial Cost Methods	Entry Age Normal level percent of pay. Investment gains/losses are amortized over 5 years, liability gains/losses are amortized over Average Working Lifetime, and plan changes are recognized immediately.
Actuarial Value of Assets	The plan is not prefunded.
Medical/Rx Elections	55% of employees are assumed to elect medical coverage at retirement. 20% of employees electing medical coverage at retirement are assumed to be married and elect coverage for their spouse at retirement. Medical and prescription drug coverage for dependent children of current and future retirees is not valued because the increase in retiree contribution for children coverage offsets the associated benefit.
Spouse Age Differential	Husbands are assumed to be three years older than wives.
Salary Increase Rates	3.50% to 10.50%
Termination Rates	For the first 10 years of services, the base table rates vary by gender, entry age, and length of service. The tables were selected based on the December 31, 2016 TMRS Actuarial Valuation, City experience and long-term expectations.
Disability Rates	0.0025% to 0.1647%
Retirement Rates	The rates vary based on age, gender, and entry age as determined by the December 31, 2016 TMRS Actuarial Valuation and chosen based on City experience and long-term expectations.
Mortality Rates	<u>Healthy Pre-Retirement</u> Gender-distinct fully-generational RP-2000 Combined Health Mortality Table with Blue-Collar Adjustment projected using scale BB multiplied by 54.5% for males and 51.5% for females. <u>Healthy Post-Retirement</u> Gender-distinct fully-generational RP-2000 Combined Health Mortality Table with Blue-Collar Adjustment projected using scale BB multiplied by 109% for males and 103% for females. <u>Disabled</u> Gender-distinct fully-generational RP-2000 Combined Health Mortality Table with Blue-Collar Adjustment projected using scale BB multiplied by 109% for males and 103% for females with a 3-year-set-forward for both males and female and a 3% minimum mortality rate.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**1. City Retiree Health Care Plan, continued**

Per Capita Claims and Administrative Costs	Medical and prescription drug per capita claims and administration costs were developed based on the following: <ul style="list-style-type: none"> <li>• City claims experience (including Medical/Rx), fees, and administration costs for the city’s employees and retirees from October 1, 2014 through September 30, 2017.</li> <li>• Claims experience was adjusted for healthcare cost trend and age-sex differentials between employees and retirees.</li> </ul>
Healthcare Cost Trend Rates	Initial rate of 8.5% declining to an ultimate rate of 5% in 7 years.

The actuarial assumptions used in this Actuarial Valuation are either based on actual City experience and developed through discussions with the City, or drawn from the December 31, 2016 Texas Municipal Retirement System Actuarial Valuation. Actuarial assumptions used from the TMRS Actuarial Valuation are assumed to be appropriate because employees and retirees of the City are members of this retirement plan.

*Discount Rate*

The discount rate used to measure the Total OPEB Liability was 4.24%. Because the City Retiree Health Care Plan is considered an unfunded trust under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index’s “20-Year Municipal Bond Index for Pay-As-You-Go” rate as of the measurement date.

*Changes in the Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at September 30, 2017	\$ 338,014	\$ -	\$ 338,014
Changes for the year:			
Service Cost	27,899	-	27,899
Interest	13,134	-	13,134
Changes in assumptions	(26,625)	-	(26,625)
Contributions - employer	-	8,187	(8,187)
Benefit payments	(8,187)	(8,187)	-
Balance at September 30, 2018	\$ 344,235	\$ -	\$ 344,235

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.24%, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.24%) or 1-percentage-point higher (5.24%) than the current rate:

	1% Decrease in Discount Rate (3.24%)	Current Discount Rate (4.24%)	1% Increase in Discount Rate (5.24%)
Net OPEB liability	\$ 389,036	\$ 344,235	\$ 305,085

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**1. City Retiree Health Care Plan, continued**

*Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rates*

The following presents the net OPEB liability of the City, calculated using the healthcare trend rates previously described under actuarial assumptions, as well as what the City's net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rates:

	1% Decrease in Healthcare Trend Rates	Current Healthcare Trend Rates	1% Increase in Healthcare Trend Rates
Net OPEB liability	\$ 291,682	\$ 344,235	\$ 409,353

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs**

For the year ended September 30, 2018, the City recognized OPEB expense of \$37,309.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 22,901
Total	<u>\$ -</u>	<u>\$ 22,901</u>

Amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended <u>December 31</u>	Net deferred outflows (inflows) of resources
2019	\$ (3,724)
2020	(3,724)
2021	(3,724)
2022	(3,724)
2023	(3,724)
Thereafter	<u>(4,281)</u>
Total	<u>\$ (22,901)</u>

**2. TMRS - Supplemental Death Benefit Fund**

**Plan Description**

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.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**2. TMRS - Supplemental Death Benefit Fund, continued**

Benefits Provided

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). The death benefit of retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

*Employees Covered by Benefit Terms*

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	111
Inactive employees entitled to but not yet receiving benefits	22
Active employees	185
Total	318

Contributions

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 the retiree's term life insurance during employees' entire careers.

The total SDBF contribution rate for the City was 0.20% and 0.19% in calendar years 2017 and 2018, respectively. The retiree portion of the SDBF contribution rate for the City was 0.07% for both calendar years 2017 and 2018. The City's contributions to the TMRS SDBF, for the year ended September 30, 2018, were \$5,935 which equaled the required contribution each year.

Net OPEB Liability

The city's Net OPEB liability (NOL) was measured as of December 31, 2017, and the Total OPEB Liability (TOL) used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%
Retiree's share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid for through the OPEB Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**2. TMRS - Supplemental Death Benefit Fund, continued**

Mortality rates – disabled retirees                      RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumptions for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013.

*Discount Rate*

The discount rate used to measure the Total OPEB Liability was 6.75%. Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of the measurement date.

*Changes in the Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2016	\$ 557,870	\$ -	\$ 557,870
Changes for the year:			
Service Cost	19,462	-	19,462
Interest	21,343	-	21,343
Changes in assumptions	49,868	-	49,868
Contributions - employer	-	5,923	(5,923)
Benefit payments	(5,923)	(5,923)	-
Balance at December 31, 2017	\$ 642,620	\$ -	\$ 642,620

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Current Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Net OPEB liability	\$ 770,638	\$ 642,620	\$ 542,902

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, continued**

**2. TMRS - Supplemental Death Benefit Fund, continued**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs  
 For the year ended September 30, 2018, the City recognized OPEB expense of \$50,488.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in actuarial assumptions	\$ 40,185	\$ -
Contributions subsequent to the measurement date	4,570	-
Total	\$ 44,755	\$ -

\$4,570 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended December 31	Net deferred outflows (inflows) of resources
2019	\$ 9,683
2020	9,683
2021	9,683
2022	9,683
2023	1,453
Total	\$ 40,185

**L. Tax Abatements**

The City entered into property tax abatement agreements with local businesses under the Texas Tax Code Chapter 312 “State Property Redevelopment and Tax Abatement Act” (“the Act”). As required by the Act, the City includes its own guidelines and criteria in granting abatements. Under the City’s program, projects must do one of the following: 1) increase property valuation, 2) provide additional new full-time equivalent jobs, or 3) increase payroll annually. Abatements are granted for up to 100% over a specified time period not to exceed 10 years and may be extended to either new or expanding businesses. Abatement is given to provide significant, long-term, positive economic impact to the community using local contractors and the resident workforce to the maximum extent feasible and by developing, redeveloping, and improving real estate within the City. Uses available for tax abatement include manufacturing, distribution centers, corporate or regional office parks, research facilities, and small entrepreneurs. If the agreement is terminated, all taxes which otherwise would have been paid to the City without the benefit of abatement will become a debt to the City and shall be due to the City within 60 days after the termination. The following table provides disclosures relevant for the fiscal year ended September 30, 2018. Due to the small volume of current agreements, all current agreements have been disclosed.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**L. Tax Abatements, Continued**

Name of Business	Criteria	Terms of Abatement	Anderson County Applied Value	Property Taxes Abated FY2018
Pentecom	Increase in property tax value of \$225,000 and creation of 35 new full-time jobs	100% in 2015, 70% in 2016, 50% in 2017 and 2018, and 25% in 2019	\$ 875,877	\$ 3,148
Rhone Funeral Home	Increase in property tax value of \$1,400,000 and creation of 5 new full-time jobs	80% in 2017, 60% in 2018, 40% in 2019, and 20% in 2020	1,834,575	7,912
Sanderson Farms Processing	Increase in property tax value of \$75,000,000 and creation of 900 new full-time jobs	90% in 2015-2020, 85% in 2021, and 80% in 2022	82,294,100	532,333
Sanderson Farms Hatchery	Increase in property tax value of \$16,000,000 and creation of 90 new full-time jobs	90% in 2015-2020, 85% in 2021, and 80% in 2022	21,829,734	141,209
Erickson Trucks and Parts, Inc.	Increase in property tax value of \$2,500,000 and creation of 25 new full-time jobs	100% in 2018, 70% in 2019, 50% in 2020-2021, and 25% in 2022	1,253,085	9,006
			<u>\$ 108,087,371</u>	<u>\$ 693,608</u>

**M. Change in Accounting Principle**

During the year, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Under GASB Statement No. 75, the City was required to record the net OPEB asset or liability and the related deferred inflows and outflows (see expanded disclosures in Note III-K). Adoption of GASB 75 required a restatement of the beginning net position to report the effect retroactively. The restatements only affect the financial statements on the accrual basis of accounting, and were recorded as follows:

	TMRS		Total
	Supplemental Death Benefit Fund	City Retiree Health Care Plan	
Governmental activities:	\$ 177,700	\$ (272,546)	\$ (94,846)
Business-type activities:			
Water and wastewater fund	(93,044)	(56,839)	(149,883)
Sanitation fund	(8,609)	(5,259)	(13,868)
Retail fund	(5,517)	(3,370)	(8,887)
Total business-type activities	(107,170)	(65,468)	(172,638)
Total change in accounting principle	<u>\$ 70,530</u>	<u>\$ (338,014)</u>	<u>\$ (267,484)</u>

**CITY OF PALESTINE, TEXAS**  
***NOTES TO FINANCIAL STATEMENTS, CONTINUED***  
**SEPTEMBER 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**N. Subsequent Events**

In March of 2018, a judgement was rendered on the L.S. Equipment Company, Inc. d/b/a Lone Star Equipment Company vs. City of Palestine, Texas case resulting in the plaintiff being awarded \$512,559 in damages. Since the events giving rise to the case occurred prior to September 30, 2018, a liability of \$512,559 has been recorded in governmental activities in the government-wide statement of net position. The liability recorded does not include the amount of attorney fees for the plaintiff which is unknown as of the date of this report.

Subsequent events have been evaluated through March 18, 2019, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 5,601,472	\$ 5,601,472	\$ 5,503,777	\$ (97,695)
Sales	4,312,318	4,312,318	4,412,694	100,376
Franchise	1,040,500	1,040,500	1,091,211	50,711
Licenses, permits, and fees	106,325	106,325	122,050	15,725
Intergovernmental	658,955	658,955	686,929	27,974
Charges for services	144,674	144,674	194,920	50,246
Fines and forfeitures	332,727	332,727	330,313	(2,414)
Contributions and donations	-	-	29	29
Investment	88,700	88,700	28,316	(60,384)
Other revenues	25,000	25,000	122,825	97,825
Total revenues	<u>12,310,671</u>	<u>12,310,671</u>	<u>12,493,064</u>	<u>182,393</u>
<b>EXPENDITURES</b>				
General government	1,954,853	2,144,764	2,008,490	136,274
Public safety	7,244,221	7,632,244	7,663,722	(31,478)
Community services	3,784,191	3,766,136	3,622,143	143,993
Community development	933,259	1,107,077	982,276	124,801
Total expenditures	<u>13,916,524</u>	<u>14,650,221</u>	<u>14,276,631</u>	<u>373,590</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,605,853)</u>	<u>(2,339,550)</u>	<u>(1,783,567)</u>	<u>555,983</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	734,286	990,984	256,698
Transfers in	1,720,853	1,720,853	1,720,853	-
Transfers out	(115,000)	(115,589)	(158,380)	(42,791)
Total other financing sources (uses)	<u>1,605,853</u>	<u>2,339,550</u>	<u>2,553,457</u>	<u>213,907</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>769,890</u>	<u>\$ 769,890</u>
Fund Balances - beginning of year			996,059	
Fund Balances - end of year			<u>\$ 1,765,949</u>	

**Notes to Budgetary Comparison Schedule - General Fund:**

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**Last 10 Fiscal Years \***

<b>Total Pension Liability</b>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>
Service Cost	\$ 938,602	\$ 997,344	\$ 1,147,723	\$ 1,162,638
Interest (on the Total Pension Liability)	2,720,857	2,808,849	2,800,125	2,916,862
Changes in benefits terms	-	-	-	-
Difference between expected and actual experience	(303,094)	(459,275)	65,763	(218,064)
Change in assumptions	-	154,385	-	-
Benefit payments, including refund of employee contributions	<u>(2,129,464)</u>	<u>(2,127,959)</u>	<u>(2,311,195)</u>	<u>(2,272,078)</u>
<b>Net change in Total Pension Liability</b>	1,226,901	1,373,344	1,702,416	1,589,358
<b>Total Pension Liability - Beginning</b>	<u>39,464,823</u>	<u>40,691,724</u>	<u>42,065,068</u>	<u>43,767,484</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 40,691,724</u>	<u>\$ 42,065,068</u>	<u>\$ 43,767,484</u>	<u>\$ 45,356,842</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 1,185,438	\$ 1,152,496	\$ 1,147,962	\$ 1,195,913
Contributions - employee	454,154	442,936	494,708	507,702
Net investment income	1,828,420	49,110	2,214,224	4,751,422
Benefit payments, including refunds of employee contributions	(2,129,464)	(2,127,959)	(2,311,195)	(2,272,078)
Administrative expense	(19,092)	(29,915)	(25,011)	(24,629)
Other	<u>(1,570)</u>	<u>(1,478)</u>	<u>(1,348)</u>	<u>(1,248)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	1,317,886	(514,810)	1,519,340	4,157,082
<b>Plan Fiduciary Net Position - Beginning</b>	<u>31,966,475</u>	<u>33,284,361</u>	<u>32,769,551</u>	<u>34,288,891</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 33,284,361</u>	<u>\$ 32,769,551</u>	<u>\$ 34,288,891</u>	<u>\$ 38,445,973</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	7,407,363	9,295,517	9,478,593	6,910,869
<b>Plan Fiduciary Net Position as a percentage of Total Pension Liability</b>	81.80%	77.90%	78.34%	84.76%
<b>Covered employee payroll</b>	\$ 7,569,229	\$ 7,382,264	\$ 8,245,139	\$ 8,461,704
<b>Net Pension Liability as a percentage of covered payroll</b>	97.86%	125.92%	114.96%	81.67%

\* Effective October 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. Information for years prior to 2014 is not available.

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS \***

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>
Actuarially Determined Contribution	\$1,185,438	\$1,688,279	\$1,208,961	\$1,171,756
Contributions in Relation to the Actuarially Determined Contribution	<u>1,185,438</u>	<u>1,688,279</u>	<u>1,208,961</u>	<u>1,171,756</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$7,569,229	\$8,565,760	\$8,561,675	\$8,479,851
Contributions as a Percentage of Covered Payroll	15.66%	19.71%	14.12%	13.82%

**Notes to Schedule of Contributions**

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal (EAN)
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar 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:**

Notes There were no benefit changes during the year.

\* Effective October 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27. Information for years prior to 2014 is not available.

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**TMRS SUPPLEMENTAL DEATH BENEFIT FUND**  
**LAST 10 FISCAL YEARS \***

<b>Total OPEB Liability</b>	<u>12/31/2017</u>
Service Cost	\$ 19,462
Interest (on the Total OPEB Liability)	21,343
Change in assumptions	49,868
Benefit payments	<u>(5,923)</u>
<b>Net change in Total OPEB Liability</b>	84,750
<b>Total OPEB Liability - Beginning</b>	<u>557,870</u>
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 642,620</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 5,923
Benefit payments	<u>(5,923)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	-
<b>Plan Fiduciary Net Position - Beginning</b>	<u>-</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ -</u></u>
<b>Net OPEB Liability - Ending (a) - (b)</b>	\$ 642,620
<b>Plan Fiduciary Net Position as a percentage of Total OPEB Liability</b>	0.00%
<b>Covered employee payroll</b>	\$ 8,461,704
<b>Net OPEB Liability as a percentage of covered payroll</b>	7.59%

\* Effective October 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Information for years prior to 2017 is not available.

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF OPEB CONTRIBUTIONS**  
**TMRS SUPPLEMENTAL DEATH BENEFIT FUND**  
**LAST 10 FISCAL YEARS \***

Actuarially Determined Contribution	9/30/2018 \$ 5,936
Contributions in Relation to the Actuarially Determined Contribution	5,936
Contribution Deficiency (Excess)	\$ -
Covered Payroll	\$8,479,851
Contributions as a Percentage of Covered Payroll	0.07%

**Notes to Schedule of Contributions**

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal (EAN)
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Mortality	RP2000 Combined Healthy Mortality 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:**

Notes There were no benefit changes during the year.

\* Effective October 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Information for years prior to 2017 is not available.



**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**CITY RETIREE HEALTH CARE PLAN**  
**LAST 10 FISCAL YEARS \***

	10/1/2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 27,899
Interest (on the Total OPEB Liability)	13,134
Change in assumptions	(26,625)
Benefit payments	(8,187)
<b>Net change in Total OPEB Liability</b>	6,221
<b>Total OPEB Liability - Beginning</b>	338,014
<b>Total OPEB Liability - Ending (a)</b>	\$ 344,235
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 8,187
Benefit payments	(8,187)
<b>Net Change in Plan Fiduciary Net Position</b>	-
<b>Plan Fiduciary Net Position - Beginning</b>	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ -
<b>Net OPEB Liability - Ending (a) - (b)</b>	\$ 344,235
<b>Plan Fiduciary Net Position as a percentage of Total OPEB Liability</b>	0.00%
<b>Covered employee payroll</b>	\$ 7,300,000
<b>Net OPEB Liability as a percentage of covered payroll</b>	4.72%

\* Effective October 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Information for years prior to 2017 is not available.

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF OPEB CONTRIBUTIONS**  
**CITY RETIREE HEALTH CARE PLAN**  
**LAST 10 FISCAL YEARS \***

Actuarially Determined Contribution	<u>9/30/2018</u> \$ 8,187
Contributions in Relation to the Actuarially Determined Contribution	<u>8,187</u>
Contribution Deficiency (Excess)	\$ -
Covered Payroll	\$7,300,000
Contributions as a Percentage of Covered Payroll	0.11%

**Notes to Schedule of Contributions**

**Valuation Date:**

Notes October 1, 2017

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal (EAN)
Amortization Method	Average Working Lifetime
Remaining Amortization Period	5 years
Salary Increases	0.035% to 0.105%
Mortality	<p><u>Healthy Pre-Retirement</u>  Gender-distinct fully-generational RP-2000 Combined Healthy Mortality Table with Blue-Collar Adjustment projected using scale BB multiplied by 54.5% for males and 51.5% for females.</p> <p><u>Healthy Post-Retirement</u>  Gender-distinct fully-generational RP-2000 Combined Healthy Mortality Table with Blue-Collar Adjustment projected using scale BB multiplied by 109% for males and 103% for females.</p> <p><u>Disabled</u>  Gender-distinct fully-generational RP-2000 Combined Healthy Mortality Table with Blue-Collar Adjustment projected using scale BB multiplied by 109% for males and 103% for females with a 3-year set-forward for both males and females and a 3% minimum mortality rate.</p>

**Other Information:**

Notes There were no benefit changes during the year.

\* Effective October 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Information for years prior to 2017 is not available.

***COMBINING STATEMENTS AND SCHEDULES***

**CITY OF PALESTINE, TEXAS**  
**DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2018**

**Special Revenue Funds**

**Community Forest Fund** – To account for committed funds and related expenditures to maintain the community forest.

**Carnegie Library Memorial Fund** – To account for donated funds and related expenditures to maintain the library.

**Fire Prevention Fund** – To account for donated funds for fire department expenditures.

**Tobacco Grant Fund** – To account for tobacco grant revenue and expenditures of the City.

**Tourism and Civic Center Fund** – To account for the occupancy tax on hotel accommodations. The funds are to be expended on endeavors which promote tourism and the convention and hotel industry.

**Loop 256 Tree Project Fund** – To account for donated funds for the maintenance of the trees on loop 256.

**Municipal Court Security Fund** – To account for security fees the municipal court assesses. The funds are required to be used on court security.

**Municipal Court Technology Fund** – To account for technology fees that the municipal court assesses. The funds are required to be used on court technology.

**Municipal Court Child Safety Fund** – To account for child safety fees that the municipal court assesses. The funds are required to be used for child safety.

**Home Program** – To account for grant revenue from the U.S. Department of Housing & Urban Development and related expenditures.

**Police Confiscated Money Fund** – To account for asset forfeitures under Chapter 59 of the Code of Criminal Procedures.

**Equitable Sharing Federal Forfeitures Fund** – To account for seizures received from the U.S. Department of Justice and can be used for certain law enforcement expenses.

**Cemetery Fund** – To account for committed funds and related expenditures to maintain the City cemetery.

**Economic Development Grant Fund** – To account for activity related to the Texas Community Development Block Grant (TxCDBG) Program Revolving Loan Fund grant from the Texas Department of Agriculture.

**Tax Notes Street** – To account for construction and equipment expenses related to street maintenance.

**Police Grants** – To account for police related grant revenue and expenditures.

**Sales Tax Repairs and Maintenance Fund** – To account for street repairs and maintenance paid for by the 1/8-cent sales tax as set forth by Ordinance No. O-17-17.

**Special Events Fund** – To account for restricted donated funds related to special events in the City (e.g., Hot Pepper Festival, Main Street, etc.)

**Capital Project Funds**

**Capital Projects Fund** – To account for the revenue and expenditures related to the construction of major capital assets.

**Library Project Fund** – To account for revenue and expenditures related to capital improvements of the library.

# CITY OF PALESTINE, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2018

Page 1 of 4

	Special Revenue Funds			
	Community Forest Fund	Carnegie Library Memorial Fund	Fire Prevention Fund	Tobacco Grant Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	13,446	8,055	8,797
Prepaid items	-	-	-	-
Receivables, net of allowance for estimated uncollectible accounts	-	-	-	-
Restricted receivables, net of allowance for estimated uncollectible accounts	-	-	-	-
Investments	50,415	-	-	-
Restricted investments	-	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ 50,415	\$ 13,446	\$ 8,055	\$ 8,797
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total liabilities	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue - Hot Pepper Festival	-	-	-	-
Total deferred inflows of resources	-	-	-	-
<b>FUND BALANCES</b>				
<b>Nonspendable:</b>				
Prepaid items	-	-	-	-
<b>Restricted for:</b>				
Economic development	-	-	-	-
Capital projects	-	-	-	-
Public safety	-	-	8,055	8,797
Community services	-	13,446	-	-
<b>Committed for:</b>				
Community forest	50,415	-	-	-
Cemetery	-	-	-	-
Community development	-	-	-	-
<b>Unassigned</b>				
Total fund balances	50,415	13,446	8,055	8,797
Total liabilities, deferred inflows of resources, and fund balances	\$ 50,415	\$ 13,446	\$ 8,055	\$ 8,797

Tourism & Civic Center Fund	Loop 256 Tree Project Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Child Safety Fund	Home Program Fund	Police Confiscated Money Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,939	\$ -
100	44	-	-	4,025	-	173,193
17,515	-	-	-	-	-	-
-	-	-	-	-	-	-
32,494	-	-	-	-	-	-
-	-	-	-	-	-	-
676,840	-	38,543	23,966	-	-	-
-	-	-	-	-	-	-
<u>\$ 726,949</u>	<u>\$ 44</u>	<u>\$ 38,543</u>	<u>\$ 23,966</u>	<u>\$ 4,025</u>	<u>\$ 3,939</u>	<u>\$ 173,193</u>
\$ 19,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,390
-	-	-	-	-	-	-
<u>19,269</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,390</u>
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
17,515	-	-	-	-	-	-
690,165	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	38,543	23,966	4,025	-	67,803
-	44	-	-	-	3,939	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>707,680</u>	<u>44</u>	<u>38,543</u>	<u>23,966</u>	<u>4,025</u>	<u>3,939</u>	<u>67,803</u>
<u>\$ 726,949</u>	<u>\$ 44</u>	<u>\$ 38,543</u>	<u>\$ 23,966</u>	<u>\$ 4,025</u>	<u>\$ 3,939</u>	<u>\$ 173,193</u>

**CITY OF PALESTINE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS, CONTINUED**  
**SEPTEMBER 30, 2018**  
*Page 3 of 4*

	<b>Special Revenue Funds</b>			
	Equitable Sharing Federal Forfeiture Fund	Cemetery Fund	Economic Development Grant Fund	Tax Notes Street Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 414,518
Restricted cash and cash equivalents	-	-	402,501	-
Prepaid items	-	-	-	-
Receivables, net of allowance for estimated uncollectible accounts	-	-	-	-
Restricted receivables, net of allowance for estimated uncollectible accounts	-	-	-	-
Investments	-	191,700	-	-
Restricted investments	-	-	-	-
Due from other funds	-	-	-	146,311
Total assets	<u>\$ -</u>	<u>\$ 191,700</u>	<u>\$ 402,501</u>	<u>\$ 560,829</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 169,095	\$ 32,717
Due to other funds	-	-	50,481	-
Total liabilities	<u>-</u>	<u>-</u>	<u>219,576</u>	<u>32,717</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue - Hot Pepper Festival	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
<b>Nonspendable:</b>				
Prepaid items	-	-	-	-
<b>Restricted for:</b>				
Economic development	-	-	182,925	-
Capital projects	-	-	-	-
Public safety	-	-	-	-
Community services	-	-	-	-
<b>Committed for:</b>				
Community forest	-	-	-	-
Cemetery	-	191,700	-	-
Community development	-	-	-	528,112
<b>Unassigned</b>				
Total fund balances	<u>-</u>	<u>191,700</u>	<u>182,925</u>	<u>528,112</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ -</u>	<u>\$ 191,700</u>	<u>\$ 402,501</u>	<u>\$ 560,829</u>

<b>Capital Projects Funds</b>					
Police Grants Fund	Sales Tax Repairs and Maintenance Fund	Special Events Fund	Capital Projects Fund	Library Project Fund	Total Governmental Funds
\$ -	\$ 96,950	\$ -	\$ -	\$ -	\$ 515,407
-	-	3,750	-	41,016	654,927
-	-	50	-	-	17,565
-	80,416	-	-	-	80,416
12,049	-	-	-	-	44,543
-	-	-	-	-	242,115
-	-	-	-	-	739,349
-	-	-	-	-	146,311
<u>\$ 12,049</u>	<u>\$ 177,366</u>	<u>\$ 3,800</u>	<u>\$ -</u>	<u>\$ 41,016</u>	<u>\$ 2,440,633</u>
\$ -	\$ -	\$ 794	\$ -	\$ -	\$ 327,265
3,414	82,893	-	-	-	136,788
<u>3,414</u>	<u>82,893</u>	<u>794</u>	<u>-</u>	<u>-</u>	<u>464,053</u>
-	-	27,094	-	-	27,094
<u>-</u>	<u>-</u>	<u>27,094</u>	<u>-</u>	<u>-</u>	<u>27,094</u>
-	-	50	-	-	17,565
-	-	-	-	-	873,090
-	-	-	-	41,016	41,016
8,635	-	-	-	-	159,824
-	-	-	-	-	17,429
-	-	-	-	-	50,415
-	-	-	-	-	191,700
-	94,473	-	-	-	622,585
-	-	(24,138)	-	-	(24,138)
<u>8,635</u>	<u>94,473</u>	<u>(24,088)</u>	<u>-</u>	<u>41,016</u>	<u>1,949,486</u>
<u>\$ 12,049</u>	<u>\$ 177,366</u>	<u>\$ 3,800</u>	<u>\$ -</u>	<u>\$ 41,016</u>	<u>\$ 2,440,633</u>



**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**  
*Page 1 of 4*

	<b>Special Revenue Funds</b>			
	Community Forest Fund	Carnegie Library Memorial Fund	Fire Prevention Fund	Tobacco Grant Fund
<b>REVENUES</b>				
Taxes:				
Sales	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	975
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Contributions and donations	-	770	-	-
Investment	477	-	-	-
Other revenues	-	-	-	-
Total revenues	<u>477</u>	<u>770</u>	<u>-</u>	<u>975</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	7,384	-	-	-
Public safety	-	-	1,217	-
Community services	-	-	-	-
Community development	-	-	-	-
Total expenditures	<u>7,384</u>	<u>-</u>	<u>1,217</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,907)</u>	<u>770</u>	<u>(1,217)</u>	<u>975</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(6,907)	770	(1,217)	975
Fund balances - beginning of year	57,322	12,676	9,272	7,822
Fund balances - end of year	<u>\$ 50,415</u>	<u>\$ 13,446</u>	<u>\$ 8,055</u>	<u>\$ 8,797</u>

Tourism & Civic Center Fund	Loop 256 Tree Project Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Child Safety Fund	Home Program Fund	Police Confiscated Money Fund
\$ 513,814	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	15,000
41,102	-	-	-	-	-	-
-	-	5,323	7,097	4,616	-	58,961
-	-	-	-	-	-	-
5,547	-	332	193	-	-	-
1,254	-	-	-	-	-	-
<u>561,717</u>	<u>-</u>	<u>5,655</u>	<u>7,290</u>	<u>4,616</u>	<u>-</u>	<u>73,961</u>
-	-	-	-	-	-	-
-	-	-	8,732	591	-	51,169
-	-	-	-	-	-	-
502,291	-	-	-	-	30	-
<u>502,291</u>	<u>-</u>	<u>-</u>	<u>8,732</u>	<u>591</u>	<u>30</u>	<u>51,169</u>
59,426	-	5,655	(1,442)	4,025	(30)	22,792
45,000	-	-	-	-	-	-
(45,000)	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
59,426	-	5,655	(1,442)	4,025	(30)	22,792
648,254	44	32,888	25,408	-	3,969	45,011
<u>\$ 707,680</u>	<u>\$ 44</u>	<u>\$ 38,543</u>	<u>\$ 23,966</u>	<u>\$ 4,025</u>	<u>\$ 3,939</u>	<u>\$ 67,803</u>

**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS, CONTINUED**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**  
*Page 3 of 4*

	<b>Special Revenue Funds</b>			
	Equitable Sharing Federal Forfeiture Fund	Cemetery Fund	Economic Development Grant Fund	Tax Notes Street Fund
<b>REVENUES</b>				
Taxes:				
Sales	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	4,168
Charges for services	-	18,025	-	-
Fines and forfeitures	-	-	-	-
Contributions and donations	-	-	-	-
Investment	(13)	2,679	-	5,125
Other revenues	-	-	-	-
Total revenues	<u>(13)</u>	<u>20,704</u>	<u>-</u>	<u>9,293</u>
<b>EXPENDITURES</b>				
General government	-	35,640	-	-
Public safety	-	-	-	-
Community services	-	-	-	-
Community development	-	-	219,578	1
Total expenditures	<u>-</u>	<u>35,640</u>	<u>219,578</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13)</u>	<u>(14,936)</u>	<u>(219,578)</u>	<u>9,292</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	589	-	-	-
Transfers out	-	-	-	(119,268)
Total other financing sources (uses)	<u>589</u>	<u>-</u>	<u>-</u>	<u>(119,268)</u>
Net change in fund balances	576	(14,936)	(219,578)	(109,976)
Fund balances - beginning of year	(576)	206,636	402,503	638,088
Fund balances - end of year	<u>\$ -</u>	<u>\$ 191,700</u>	<u>\$ 182,925</u>	<u>\$ 528,112</u>

<b>Capital Projects Funds</b>					
Police Grants Fund	Sales Tax Repairs and Maintenance Fund	Special Events Fund	Capital Projects Fund	Library Project Fund	Total Governmental Funds
\$ -	\$ 484,918	\$ -	\$ -	\$ -	\$ 998,732
36,277	-	-	-	-	56,420
-	-	680	-	-	59,807
-	-	-	-	-	75,997
-	-	72,197	-	-	72,967
-	-	-	-	357	14,697
-	-	-	-	-	1,254
<u>36,277</u>	<u>484,918</u>	<u>72,877</u>	<u>-</u>	<u>357</u>	<u>1,279,874</u>
-	-	-	-	-	43,024
33,335	-	-	-	-	95,044
-	-	48,820	-	-	48,820
-	390,445	-	-	-	1,112,345
<u>33,335</u>	<u>390,445</u>	<u>48,820</u>	<u>-</u>	<u>-</u>	<u>1,299,233</u>
2,942	94,473	24,057	-	357	(19,359)
-	-	-	119,268	-	164,857
-	-	-	-	-	(164,268)
<u>-</u>	<u>-</u>	<u>-</u>	<u>119,268</u>	<u>-</u>	<u>589</u>
2,942	94,473	24,057	119,268	357	(18,770)
5,693	-	(48,145)	(119,268)	40,659	1,968,256
<u>\$ 8,635</u>	<u>\$ 94,473</u>	<u>\$ (24,088)</u>	<u>\$ -</u>	<u>\$ 41,016</u>	<u>\$ 1,949,486</u>

# CITY OF PALESTINE, TEXAS

## *BUDGETARY COMPARISON SCHEDULE*

### *TOURISM & CIVIC CENTER FUND*

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Sales	\$ 491,500	\$ 491,500	\$ 513,814	\$ 22,314
Charges for services	27,200	27,200	41,102	13,902
Investment	-	-	5,547	5,547
Other revenues	-	-	1,254	1,254
Total revenues	518,700	518,700	561,717	43,017
 <b>EXPENDITURES</b>				
Community development	571,566	571,566	502,291	69,275
Total expenditures	571,566	571,566	502,291	69,275
 Excess (Deficiency) of Revenues over (under) Expenditures	(52,866)	(52,866)	59,426	112,292
 <b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	45,000	45,000	45,000	-
Transfers out	(45,000)	(45,000)	(45,000)	-
Total other financing sources (uses)	-	-	-	-
 Net Change in Fund Balance	\$ (52,866)	\$ (52,866)	59,426	\$ 112,292
 Fund Balances - beginning of year			648,254	
Fund Balances - end of year			\$ 707,680	

# CITY OF PALESTINE, TEXAS

## *BUDGETARY COMPARISON SCHEDULE*

### *MUNICIPAL COURT SECURITY FUND*

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Fines and forfeitures	\$ 7,200	\$ 7,200	\$ 5,323	\$ (1,877)
Investment	-	-	332	332
Total revenues	7,200	7,200	5,655	(1,545)
<b>EXPENDITURES</b>				
Public safety	7,200	7,200	-	7,200
Total expenditures	7,200	7,200	-	7,200
Excess (Deficiency) of Revenues over (under) Expenditures	-	-	5,655	5,655
Net Change in Fund Balance	\$ -	\$ -	5,655	\$ 5,655
Fund Balances - beginning of year			32,888	
Fund Balances - end of year			\$ 38,543	

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**MUNICIPAL COURT TECHNOLOGY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Fines and forfeitures	\$ 9,000	\$ 9,000	\$ 7,097	\$ (1,903)
Investment	-	-	193	193
Total revenues	<u>9,000</u>	<u>9,000</u>	<u>7,290</u>	<u>(1,710)</u>
<b>EXPENDITURES</b>				
Public safety	9,000	16,500	8,732	7,768
Total expenditures	<u>9,000</u>	<u>16,500</u>	<u>8,732</u>	<u>7,768</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>(7,500)</u>	<u>(1,442)</u>	<u>6,058</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (7,500)</u>	<u>(1,442)</u>	<u>\$ 6,058</u>
Fund Balances - beginning of year			<u>25,408</u>	
Fund Balances - end of year			<u>\$ 23,966</u>	

# CITY OF PALESTINE, TEXAS

## *BUDGETARY COMPARISON SCHEDULE*

### *POLICE CONFISCATED MONEY FUND*

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ 15,000	\$ 15,000
Fines and forfeitures	-	-	58,961	58,961
Total revenues	-	-	73,961	73,961
<b>EXPENDITURES</b>				
Public safety	-	59,000	51,169	7,831
Total expenditures	-	59,000	51,169	7,831
Excess (Deficiency) of Revenues over (under) Expenditures	-	(59,000)	22,792	81,792
Net Change in Fund Balance	\$ -	\$ (59,000)	22,792	\$ 81,792
Fund Balances - beginning of year			45,011	
Fund Balances - end of year			\$ 67,803	



**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**CEMETERY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 6,000	\$ 6,000	\$ 18,025	\$ 12,025
Investment	-	-	2,679	2,679
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>20,704</u>	<u>14,704</u>
<b>EXPENDITURES</b>				
General government	30,000	35,700	35,640	60
Total expenditures	<u>30,000</u>	<u>35,700</u>	<u>35,640</u>	<u>60</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(24,000)</u>	<u>(29,700)</u>	<u>(14,936)</u>	<u>14,764</u>
Net Change in Fund Balance	<u>\$ (24,000)</u>	<u>\$ (29,700)</u>	<u>(14,936)</u>	<u>\$ 14,764</u>
Fund Balances - beginning of year			<u>206,636</u>	
Fund Balances - end of year			<u>\$ 191,700</u>	

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**ECONOMIC DEVELOPMENT GRANT FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES</b>				
Community development	\$ -	\$ 100,000	\$ 219,578	\$ (119,578)
Total expenditures	-	100,000	219,578	(119,578)
Excess (Deficiency) of Revenues over (under) Expenditures	-	(100,000)	(219,578)	(119,578)
Net Change in Fund Balance	\$ -	\$ (100,000)	(219,578)	\$ (119,578)
Fund Balances - beginning of year			402,503	
Fund Balances - end of year			\$ 182,925	

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**POLICE GRANTS FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ 20,880	\$ 36,277	\$ 15,397
Total revenues	<u>-</u>	<u>20,880</u>	<u>36,277</u>	<u>15,397</u>
<b>EXPENDITURES</b>				
Public safety	-	20,880	33,335	(12,455)
Total expenditures	<u>-</u>	<u>20,880</u>	<u>33,335</u>	<u>(12,455)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>-</u>	<u>2,942</u>	<u>2,942</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,942</u>	<u>\$ 2,942</u>
Fund Balances - beginning of year			<u>5,693</u>	
Fund Balances - end of year			<u>\$ 8,635</u>	

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**SALES TAX REPAIRS AND MAINTENANCE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales	\$ 476,920	\$ 476,920	\$ 484,918	\$ 7,998
Total revenues	<u>476,920</u>	<u>476,920</u>	<u>484,918</u>	<u>7,998</u>
<b>EXPENDITURES</b>				
Community development	476,920	476,920	390,445	86,475
Total expenditures	<u>476,920</u>	<u>476,920</u>	<u>390,445</u>	<u>86,475</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>-</u>	<u>94,473</u>	<u>94,473</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>94,473</u>	<u>\$ 94,473</u>
Fund Balances - beginning of year			-	
Fund Balances - end of year			<u>\$ 94,473</u>	

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL EVENTS FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ -	\$ -	\$ 680	\$ 680
Contributions and donations	74,660	74,660	72,197	(2,463)
Total revenues	<u>74,660</u>	<u>74,660</u>	<u>72,877</u>	<u>(1,783)</u>
<b>EXPENDITURES</b>				
Community services	74,660	74,660	48,820	25,840
Total expenditures	<u>74,660</u>	<u>74,660</u>	<u>48,820</u>	<u>25,840</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>-</u>	<u>24,057</u>	<u>24,057</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>24,057</u>	<u>\$ 24,057</u>
Fund Balances - beginning of year			<u>(48,145)</u>	
Fund Balances - end of year			<u>\$ (24,088)</u>	

**CITY OF PALESTINE, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,468,150	\$ 1,468,150	\$ 1,454,335	\$ (13,815)
Investment	-	-	62,057	62,057
Total revenues	<u>1,468,150</u>	<u>1,468,150</u>	<u>1,516,392</u>	<u>48,242</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	730,000	730,000	730,000	-
Interest and fiscal charges	306,420	306,420	306,388	32
Total expenditures	<u>1,036,420</u>	<u>1,036,420</u>	<u>1,036,388</u>	<u>32</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>431,730</u>	<u>431,730</u>	<u>480,004</u>	<u>48,274</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(802,080)	(802,080)	(879,236)	(77,156)
Total other financing sources (uses)	<u>(802,080)</u>	<u>(802,080)</u>	<u>(879,236)</u>	<u>(77,156)</u>
Net Change in Fund Balance	<u>\$ (370,350)</u>	<u>\$ (370,350)</u>	<u>(399,232)</u>	<u>\$ (28,882)</u>
Fund Balances - beginning of year			<u>1,107,474</u>	
Fund Balances - end of year			<u>\$ 708,242</u>	

**CITY OF PALESTINE, TEXAS**  
***DESCRIPTION OF INTERNAL SERVICE FUNDS***  
**SEPTEMBER 30, 2018**

**Health Insurance Fund** – To account for the costs associated with health insurance for employees.

**Equipment Replacement Fund** – To account for equipment replacement to departments or agencies of the City on a cost-reimbursement basis.

**Workers' Compensation Fund** – To account for the costs associated with workers' compensation of employees.

**Unemployment Fund** – This internal service fund is used to account for the costs associated with unemployment.

**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**SEPTEMBER 30, 2018**

	Health Insurance Fund	Equipment Replacement Fund	Workers' Compensation Fund	Unemployment Fund	Total Internal Service Funds
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 614,386	\$ -	\$ -	\$ 168,913	\$ 783,299
Total current assets	<u>614,386</u>	<u>-</u>	<u>-</u>	<u>168,913</u>	<u>783,299</u>
<b>Noncurrent Assets:</b>					
Capital assets:					
Depreciable, net of accumulated depreciation	-	1,732,108	-	-	1,732,108
Total capital assets, net of accumulated depreciation	<u>-</u>	<u>1,732,108</u>	<u>-</u>	<u>-</u>	<u>1,732,108</u>
Total noncurrent assets	<u>-</u>	<u>1,732,108</u>	<u>-</u>	<u>-</u>	<u>1,732,108</u>
Total assets	<u>614,386</u>	<u>1,732,108</u>	<u>-</u>	<u>168,913</u>	<u>2,515,407</u>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued liabilities	370,651	5,131	-	-	375,782
Accrued interest payable	-	14,404	-	-	14,404
Due to other funds	-	68,377	-	-	68,377
Long-term debt - due within one year	-	326,467	-	-	326,467
Total current liabilities	<u>370,651</u>	<u>414,379</u>	<u>-</u>	<u>-</u>	<u>785,030</u>
<b>Noncurrent liabilities:</b>					
Long-term debt - due in more than one year	<u>277,619</u>	<u>636,383</u>	<u>-</u>	<u>-</u>	<u>914,002</u>
Total noncurrent liabilities	<u>277,619</u>	<u>636,383</u>	<u>-</u>	<u>-</u>	<u>914,002</u>
Total liabilities	<u>648,270</u>	<u>1,050,762</u>	<u>-</u>	<u>-</u>	<u>1,699,032</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Inflows related to OPEB	<u>18,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,675</u>
Total deferred inflows of resources	<u>18,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,675</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	769,258	-	-	769,258
Unrestricted	<u>(52,559)</u>	<u>(87,912)</u>	<u>-</u>	<u>168,913</u>	<u>28,442</u>
Total Net Position	<u>\$ (52,559)</u>	<u>\$ 681,346</u>	<u>\$ -</u>	<u>\$ 168,913</u>	<u>\$ 797,700</u>



# CITY OF PALESTINE, TEXAS

## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION INTERNAL SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Health Insurance Fund	Equipment Replacement Fund	Workers' Compensation Fund	Unemployment Fund	Total Internal Service Funds
<b>OPERATING REVENUES</b>					
Charges for services	\$ 2,993,173	\$ 300,003	\$ -	\$ -	\$ 3,293,176
Total operating revenues	<u>2,993,173</u>	<u>300,003</u>	<u>-</u>	<u>-</u>	<u>3,293,176</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and services	2,612,986	321,050	-	967	2,935,003
Depreciation	-	306,883	-	-	306,883
Total operating expenses	<u>2,612,986</u>	<u>627,933</u>	<u>-</u>	<u>967</u>	<u>3,241,886</u>
Operating income (loss)	<u>380,187</u>	<u>(327,930)</u>	<u>-</u>	<u>(967)</u>	<u>51,290</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	1,717	-	-	-	1,717
Interest expense and fiscal charges	-	(31,843)	-	-	(31,843)
Total non-operating revenues (expenses)	<u>1,717</u>	<u>(31,843)</u>	<u>-</u>	<u>-</u>	<u>(30,126)</u>
Income (loss) before contributions and transfers	<u>381,904</u>	<u>(359,773)</u>	<u>-</u>	<u>(967)</u>	<u>21,164</u>
Transfers in	-	422,230	42,791	-	465,021
Change in net position	381,904	62,457	42,791	(967)	486,185
Net position - beginning of year	(161,917)	618,889	(42,791)	169,880	584,061
Change in Accounting Principle (Note III-M)	(272,546)	-	-	-	(272,546)
Net position - end of year	<u>\$ (52,559)</u>	<u>\$ 681,346</u>	<u>\$ -</u>	<u>\$ 168,913</u>	<u>\$ 797,700</u>

**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Health Insurance Fund	Equipment Replacement Fund	Workers' Compensation Fund	Unemployment Fund	Total Internal Service Funds
<b>Cash Flows from Operating Activities:</b>					
Cash received from interfund services provided	\$ 3,142,572	\$ 300,003	\$ -	\$ -	\$ 3,442,575
Cash payments to other suppliers for goods and services	(2,763,108)	(417,509)	-	(967)	(3,181,584)
Internal activity-payments from other funds	-	303,962	-	169,880	473,842
Internal activity-payments to other funds	-	(121,775)	(295,952)	-	(417,727)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>379,464</u>	<u>64,681</u>	<u>(295,952)</u>	<u>168,913</u>	<u>317,106</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>					
Transfer from other funds	-	422,230	42,791	-	465,021
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>-</u>	<u>422,230</u>	<u>42,791</u>	<u>-</u>	<u>465,021</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Principal paid on capital debt	-	(359,450)	-	-	(359,450)
Interest and fiscal charges on capital debt	-	(38,551)	-	-	(38,551)
Acquisition and construction of capital assets	-	(88,910)	-	-	(88,910)
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	<u>-</u>	<u>(486,911)</u>	<u>-</u>	<u>-</u>	<u>(486,911)</u>
<b>Cash Flows from Investing Activities:</b>					
Interest on investments	1,717	-	-	-	1,717
Proceeds from sales and maturities of investments	-	-	92,599	-	92,599
Purchase of investments	-	-	(842)	-	(842)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>1,717</u>	<u>-</u>	<u>91,757</u>	<u>-</u>	<u>93,474</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	381,181	-	(161,404)	168,913	388,690
<b>Cash and Cash Equivalents at Beginning of Year</b>	233,205	-	161,404	-	394,609
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 614,386</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,913</u>	<u>\$ 783,299</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>					
Operating Income (Loss)	\$ 380,187	\$ (327,930)	\$ -	\$ (967)	\$ 51,290
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation	-	306,883	-	-	306,883
Change in Assets and Liabilities					
(Increase) decrease in accounts receivable	149,399	-	-	-	149,399
(Increase) decrease in prepaid items	17,477	-	-	-	17,477
(Increase) decrease in interfund receivables	-	303,962	-	169,880	473,842
Increase (Decrease) in accounts payable	(186,274)	(96,459)	-	-	(282,733)
Increase (Decrease) in interfund payables	-	(121,775)	(295,952)	-	(417,727)
Increase (Decrease) in deferred inflows	18,675	-	-	-	18,675
Total Adjustments	<u>(723)</u>	<u>392,611</u>	<u>(295,952)</u>	<u>169,880</u>	<u>265,816</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 379,464</u>	<u>\$ 64,681</u>	<u>\$ (295,952)</u>	<u>\$ 168,913</u>	<u>\$ 317,106</u>

***STATISTICAL SECTION (UNAUDITED)***

# CITY OF PALESTINE, TEXAS

## NET POSITION BY COMPONENT

### LAST TEN YEARS

(Accrual Basis)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16	2016-17	2017-18 <sup>(2)</sup>
<b>Governmental Activities:</b>										
Invested in capital assets, net of related debt	\$ 18,132,593	\$ 10,638,424	\$ 10,032,101	\$ 10,616,024	\$ 9,669,453	\$ 9,738,059	\$ 8,484,473	\$ 8,998,486	\$ 8,837,366	\$ 8,525,320
Restricted	2,034,549	1,634,759	723,203	1,053,926	1,271,388	1,787,424	1,901,250	3,021,142	2,338,406	1,799,601
Unrestricted	2,341,718	526,309	1,316,835	1,276,310	1,909,100	1,010,745	(1,447,986)	(4,857,349)	(5,856,549)	(5,196,457)
Total governmental activities net assets	<u>\$ 22,508,860</u>	<u>\$ 12,799,492</u>	<u>\$ 12,072,139</u>	<u>\$ 12,946,260</u>	<u>\$ 12,849,941</u>	<u>\$ 12,536,228</u>	<u>\$ 8,937,737</u>	<u>\$ 7,162,279</u>	<u>\$ 5,319,223</u>	<u>\$ 5,128,464</u>
<b>Business-type Activities:</b>										
Invested in capital assets, net of related debt	\$ 8,317,055	\$ 15,027,092	\$ 20,515,764	\$ 20,398,116	\$ 20,924,948	\$ 22,105,703	\$ 21,588,418	\$ 20,323,071	\$ 19,797,152	\$ 20,021,618
Restricted	4,921,621	5,947,381	1,742,282	1,676,274	1,412,470	1,412,470	1,192,779	1,012,685	906,364	1,804,479
Unrestricted	2,152,113	2,388,432	1,710,877	2,438,363	2,070,241	1,744,066	2,378,890	4,742,808	5,057,155	4,001,332
Total business-type activities net assets	<u>\$ 15,390,789</u>	<u>\$ 23,362,905</u>	<u>\$ 23,968,923</u>	<u>\$ 24,512,753</u>	<u>\$ 24,407,659</u>	<u>\$ 25,262,239</u>	<u>\$ 25,160,087</u>	<u>\$ 26,078,564</u>	<u>\$ 25,760,671</u>	<u>\$ 25,827,429</u>
<b>Primary Government Activities:</b>										
Invested in capital assets, net of related debt	\$ 26,449,648	\$ 25,665,516	\$ 30,547,865	\$ 31,014,140	\$ 30,594,401	\$ 31,843,762	\$ 30,072,891	\$ 29,321,557	\$ 28,634,518	\$ 28,546,938
Restricted	6,956,170	7,582,140	2,465,485	2,730,200	2,683,858	3,199,894	3,094,029	4,033,827	3,244,770	3,604,080
Unrestricted	4,493,831	2,914,741	3,027,712	3,714,673	3,979,341	2,754,811	930,904	(114,541)	(799,394)	(1,195,125)
Total primary government net assets	<u>\$ 37,899,649</u>	<u>\$ 36,162,397</u>	<u>\$ 36,041,062</u>	<u>\$ 37,459,013</u>	<u>\$ 37,257,600</u>	<u>\$ 37,798,467</u>	<u>\$ 34,097,824</u>	<u>\$ 33,240,843</u>	<u>\$ 31,079,894</u>	<u>\$ 30,955,893</u>

<sup>(1)</sup> Effective October 1, 2014, the City of Palestine, Texas adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*.

<sup>(2)</sup> Effective October 1, 2017, the City of Palestine, Texas adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Source: Government-wide Statement of Net Position

# CITY OF PALESTINE, TEXAS

## CHANGES IN NET POSITION

LAST TEN YEARS

(Accrual Basis)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>EXPENSES</b>										
Governmental activities:										
General government	\$ 6,048,984	\$ 1,746,493	\$ 2,256,316	\$ 1,914,617	\$ 1,563,593	\$ 1,668,925	\$ 1,490,998	\$ 1,642,279	\$ 2,230,980	\$ 2,299,445
Public safety	6,919,847	7,670,153	6,923,063	6,768,221	6,841,422	7,774,512	7,212,271	9,507,636	8,476,776	7,752,446
Community services	4,440,357	4,710,114	3,374,158	3,840,239	3,694,665	3,902,102	3,461,113	4,057,567	5,001,943	4,512,989
Community development	1,085,381	1,601,529	2,748,876	1,869,932	2,307,956	2,074,544	2,598,872	2,362,118	1,891,830	2,372,808
Interest expense on long-term debt	184,033	486,914	266,496	447,410	355,022	322,608	348,349	402,246	361,890	336,512
Total governmental activities	<u>18,678,602</u>	<u>16,215,203</u>	<u>15,568,909</u>	<u>14,840,419</u>	<u>14,762,658</u>	<u>15,742,691</u>	<u>15,111,603</u>	<u>17,971,846</u>	<u>17,963,419</u>	<u>17,274,200</u>
Business-type activities:										
Water and wastewater	5,337,884	5,796,547	6,256,324	6,541,976	6,409,019	6,319,451	5,817,415	6,138,416	6,952,929	6,822,610
Sanitation	1,816,866	2,277,362	2,755,960	2,525,215	2,800,106	2,774,345	2,871,842	2,690,298	2,653,193	2,849,302
Retail	-	190,662	355,287	372,031	372,873	396,571	508,108	377,125	480,820	441,514
Total business-type activities	<u>7,154,750</u>	<u>8,264,571</u>	<u>9,367,571</u>	<u>9,439,222</u>	<u>9,581,998</u>	<u>9,490,367</u>	<u>9,197,365</u>	<u>9,205,839</u>	<u>10,086,942</u>	<u>10,113,426</u>
Total primary government	<u>\$ 25,833,352</u>	<u>\$ 24,479,774</u>	<u>\$ 24,936,480</u>	<u>\$ 24,279,641</u>	<u>\$ 24,344,656</u>	<u>\$ 25,233,058</u>	<u>\$ 24,308,968</u>	<u>\$ 27,177,685</u>	<u>\$ 28,050,361</u>	<u>\$ 27,387,626</u>
<b>PROGRAM REVENUES</b>										
Governmental activities:										
Charges for services:										
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	3,833,076	471,100	451,736	527,692	495,676	416,838	703,375	599,702	384,670	326,598
Community services	140,105	294,902	398,235	494,344	273,574	96,715	91,970	183,755	58,091	112,641
Community development	-	182,925	97,124	93,883	82,567	139,176	96,400	116,308	267,253	294,514
Operating grants and contributions	787,002	285,923	274,365	245,836	719,912	318,983	779,532	691,525	520,710	481,274
Capital grants and contributions	-	175,280	457,124	733,953	137,820	456,214	876,516	381,365	722,501	407,481
Total governmental activities	<u>4,760,183</u>	<u>1,410,130</u>	<u>1,678,584</u>	<u>2,095,708</u>	<u>1,709,549</u>	<u>1,427,926</u>	<u>2,547,793</u>	<u>1,972,655</u>	<u>1,953,225</u>	<u>1,622,508</u>
Business-type activities:										
Charges for services:										
Water and wastewater	6,062,301	6,200,770	6,675,344	6,553,831	6,744,769	7,160,493	7,613,860	7,255,558	7,045,911	7,296,990
Sanitation	1,850,445	2,272,629	2,817,587	2,545,058	2,721,246	3,271,791	3,600,036	3,414,943	3,454,821	3,608,496
Retail	-	346,914	498,691	513,575	536,566	598,208	585,873	618,223	558,709	546,604
Capital grants and contributions	-	148,334	681,996	1,214,975	175,373	-	-	-	-	-
Total business-type activities	<u>7,912,746</u>	<u>8,968,647</u>	<u>10,673,618</u>	<u>10,827,439</u>	<u>10,177,954</u>	<u>11,030,492</u>	<u>11,799,769</u>	<u>11,288,724</u>	<u>11,059,441</u>	<u>11,452,090</u>
Total primary government	<u>\$ 12,672,929</u>	<u>\$ 10,378,777</u>	<u>\$ 12,352,202</u>	<u>\$ 12,923,147</u>	<u>\$ 11,887,503</u>	<u>\$ 12,458,418</u>	<u>\$ 14,347,562</u>	<u>\$ 13,261,379</u>	<u>\$ 13,012,666</u>	<u>\$ 13,074,598</u>
<b>NET (EXPENSE) REVENUES</b>										
Governmental activities	\$(13,918,419)	\$(14,805,073)	\$(13,890,325)	\$(12,744,711)	\$(13,053,109)	\$(14,314,765)	\$(12,563,810)	\$(15,999,191)	\$(16,010,194)	\$(15,651,692)
Business-type activities	757,996	704,076	1,306,047	1,388,217	595,956	1,540,125	2,602,404	2,082,885	972,499	1,338,664
Total primary government net expense	<u>\$(13,160,423)</u>	<u>\$(14,100,997)</u>	<u>\$(12,584,278)</u>	<u>\$(11,356,494)</u>	<u>\$(12,457,153)</u>	<u>\$(12,774,640)</u>	<u>\$(9,961,406)</u>	<u>\$(13,916,306)</u>	<u>\$(15,037,695)</u>	<u>\$(14,313,028)</u>

# CITY OF PALESTINE, TEXAS

## CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

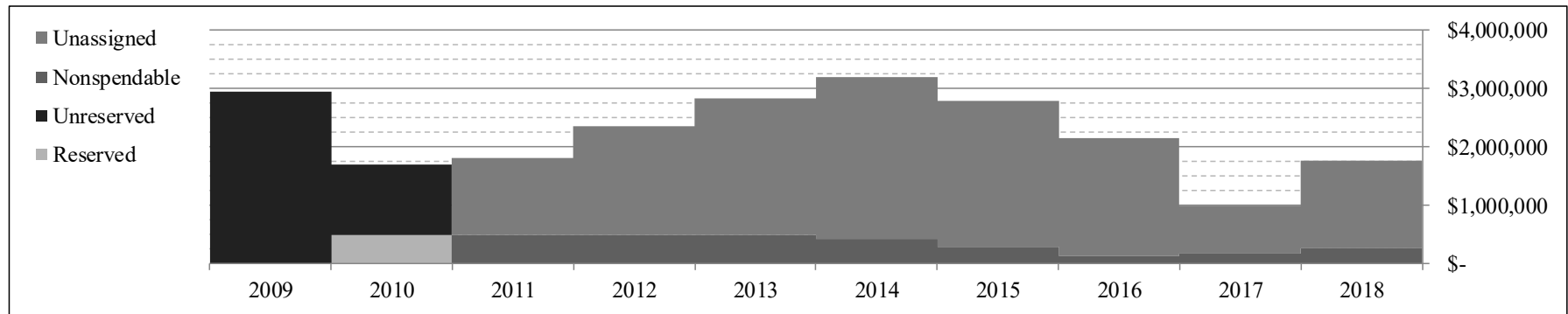
(Accrual Basis)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>										
Governmental activities										
Taxes										
Property	\$ 6,196,642	\$ 5,780,079	\$ 5,894,097	\$ 6,084,060	\$ 6,038,462	\$ 6,064,137	\$ 6,043,894	\$ 6,301,758	\$ 6,243,134	\$ 6,961,566
Sales and use	4,991,964	5,118,332	5,425,434	5,399,352	5,333,876	5,758,329	5,899,830	5,604,257	5,284,628	5,411,426
Franchise	922,516	1,227,490	1,147,029	1,005,088	954,779	1,028,350	1,023,089	1,027,661	1,105,224	1,091,211
Investment earnings	81,553	41,719	20,004	33,833	35,820	56,468	19,336	36,204	67,202	106,787
Gain (loss) on sales of assets	-	-	-	-	(320,551)	-	102,283	55,586	8,500	711,863
Other income	189,189	140,065	(37,566)	237,203	203,100	400,452	180,662	28,681	154,576	124,079
Transfers	(608,621)	(7,211,980)	713,974	859,296	711,302	693,316	857,729	1,169,587	1,303,874	1,148,847
Total governmental activities	<u>11,773,243</u>	<u>5,095,705</u>	<u>13,162,972</u>	<u>13,618,832</u>	<u>12,956,788</u>	<u>14,001,052</u>	<u>14,126,823</u>	<u>14,223,734</u>	<u>14,167,138</u>	<u>15,555,779</u>
Business-type activities										
Investment earnings	49,644	56,060	13,945	14,909	10,252	7,771	3,118	5,179	8,041	48,636
Other income	-	-	-	-	-	-	-	-	5,441	943
Transfers	608,621	7,211,980	(713,974)	(859,296)	(711,302)	(693,316)	(857,729)	(1,169,587)	(1,303,874)	(1,148,847)
Total business-type activities	<u>658,265</u>	<u>7,268,040</u>	<u>(700,029)</u>	<u>(844,387)</u>	<u>(701,050)</u>	<u>(685,545)</u>	<u>(854,611)</u>	<u>(1,164,408)</u>	<u>(1,290,392)</u>	<u>(1,099,268)</u>
Total primary government	<u>\$ 12,431,508</u>	<u>\$ 12,363,745</u>	<u>\$ 12,462,943</u>	<u>\$ 12,774,445</u>	<u>\$ 12,255,738</u>	<u>\$ 13,315,507</u>	<u>\$ 13,272,212</u>	<u>\$ 13,059,326</u>	<u>\$ 12,876,746</u>	<u>\$ 14,456,511</u>
<b>CHANGE IN NET ASSETS</b>										
Governmental activities	\$ (2,145,176)	\$ (9,709,368)	\$ (727,353)	\$ 874,121	\$ (96,321)	\$ (313,713)	\$ 1,563,013	\$ (1,775,457)	\$ (1,843,056)	\$ (95,913)
Business-type activities	1,416,261	7,972,116	606,018	543,830	(105,094)	854,580	1,747,793	918,477	(317,893)	239,396
Total primary government	<u>\$ (728,915)</u>	<u>\$ (1,737,252)</u>	<u>\$ (121,335)</u>	<u>\$ 1,417,951</u>	<u>\$ (201,415)</u>	<u>\$ 540,867</u>	<u>\$ 3,310,806</u>	<u>\$ (856,980)</u>	<u>\$ (2,160,949)</u>	<u>\$ 143,483</u>

Source: Government-wide Statement of Activities

**CITY OF PALESTINE, TEXAS**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN YEARS**  
**(Modified Accrual Basis)**

	2008-09 <sup>(1)</sup>	2009-10 <sup>(1)</sup>	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
General Fund										
Reserved	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	2,950,450	1,202,987	-	-	-	-	-	-	-	-
Nonspendable	-	-	500,000	500,000	500,000	429,708	286,998	141,650	169,369	277,520
Unassigned	-	-	1,317,428	1,862,304	2,334,014	2,761,357	2,493,707	2,017,854	826,690	1,488,429
<b>Total General Fund</b>	<b>\$ 2,950,450</b>	<b>\$ 1,702,987</b>	<b>\$ 1,817,428</b>	<b>\$ 2,362,304</b>	<b>\$ 2,834,014</b>	<b>\$ 3,191,065</b>	<b>\$ 2,780,705</b>	<b>\$ 2,159,504</b>	<b>\$ 996,059</b>	<b>\$ 1,765,949</b>



All Other Governmental Funds										
Reserved	\$ 93,758	\$ 1,170,431	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in										
Special Revenue Funds	793,803	548,703	-	-	-	-	-	-	-	-
Capital Project Funds	1,139,154	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	47,882	527,227	-	-	-	36,481	3,267	17,565
Restricted	-	-	1,131,305	1,043,467	1,271,388	1,439,760	1,901,250	3,021,142	2,338,406	1,799,601
Committed	-	-	301,208	224,291	358,993	363,715	304,988	260,898	902,046	864,700
Unassigned	-	-	(162,255)	1,443,856	(308,546)	(578,722)	1,299,402	(88,428)	(167,989)	(24,138)
<b>Total All Other Governmental Funds</b>	<b>\$ 2,026,715</b>	<b>\$ 1,719,134</b>	<b>\$ 1,318,140</b>	<b>\$ 3,238,841</b>	<b>\$ 1,321,835</b>	<b>\$ 1,224,753</b>	<b>\$ 3,505,640</b>	<b>\$ 3,230,093</b>	<b>\$ 3,075,730</b>	<b>\$ 2,657,728</b>

(1) Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the fiscal year ended September 30, 2011. For years prior to implementation of GASB Statement No. 54, the City classified fund balance according to GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

Source: Governmental Funds Balance Sheet

**CITY OF PALESTINE, TEXAS**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN YEARS**  
**(Modified Accrual Basis)**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Revenues</b>										
Taxes	\$ 12,146,353	\$ 12,077,583	\$ 12,474,120	\$ 12,354,709	\$ 12,425,956	\$ 12,882,142	\$ 13,015,304	\$ 12,923,003	\$ 12,623,797	\$ 13,460,749
Licenses, permits, and fees	140,105	182,925	97,124	93,883	82,567	139,176	96,400	116,308	100,586	122,050
Fines and forfeitures	399,809	471,100	428,985	527,692	517,533	416,838	443,291	611,532	312,614	406,310
Charges for services	382,984	294,902	492,661	315,566	273,574	96,715	91,970	183,755	209,783	254,727
Intergovernmental	787,002	461,203	731,489	1,136,709	719,911	612,668	1,656,048	992,384	1,157,557	743,349
Investment earnings	76,272	41,719	20,004	33,833	35,820	56,468	18,746	35,588	65,710	105,070
Other revenues	189,189	283,610	67,332	237,203	356,640	400,453	282,945	164,773	235,979	197,075
<b>Total Revenues</b>	<b>14,121,714</b>	<b>13,813,042</b>	<b>14,311,715</b>	<b>14,699,595</b>	<b>14,412,001</b>	<b>14,604,460</b>	<b>15,604,704</b>	<b>15,027,343</b>	<b>14,706,026</b>	<b>15,289,330</b>
<b>Expenditures</b>										
General governmental	1,991,090	1,613,752	1,883,257	1,696,390	1,684,658	1,929,605	1,470,766	1,637,433	1,876,371	2,051,514
Public safety	6,919,847	7,044,526	6,763,420	6,876,190	6,570,137	6,886,784	7,010,322	8,548,498	7,661,500	7,758,766
Community services	4,440,357	4,522,774	3,773,019	3,720,489	3,620,593	3,654,147	3,740,776	3,622,155	4,020,346	3,670,963
Community development	1,793,349	1,360,079	1,951,956	2,309,451	1,482,267	1,569,113	3,278,387	1,986,040	2,405,693	2,094,621
Debt service:										
Principal	220,000	260,000	390,000	430,000	450,000	460,000	475,000	890,000	708,000	730,000
Interest and fees	168,808	131,975	550,590	423,098	393,640	344,076	327,422	384,745	326,785	306,388
<b>Total Expenditures</b>	<b>15,533,451</b>	<b>14,933,106</b>	<b>15,312,242</b>	<b>15,455,618</b>	<b>14,201,295</b>	<b>14,843,725</b>	<b>16,302,673</b>	<b>17,068,871</b>	<b>16,998,695</b>	<b>16,612,252</b>
Excess of revenues over (under) expenditures	(1,411,737)	(1,120,064)	(1,000,527)	(756,023)	210,706	(239,265)	(697,969)	(2,041,528)	(2,292,669)	(1,322,922)
<b>Other Financing Sources (uses)</b>										
Transfers in	324,933	524,945	896,810	927,765	913,049	916,589	1,467,995	1,613,065	1,585,883	1,885,710
Transfers out	(172,611)	(7,736,925)	(182,836)	(68,469)	(206,747)	(417,355)	(1,449,499)	(468,285)	(611,022)	(1,201,884)
Issuance of long-term debt	-	6,777,000	-	-	-	-	2,550,000	-	-	-
Sales of capital assets	-	-	-	-	-	-	-	-	-	990,984
<b>Total Other Financing Sources</b>	<b>152,322</b>	<b>(434,980)</b>	<b>713,974</b>	<b>859,296</b>	<b>706,302</b>	<b>499,234</b>	<b>2,568,496</b>	<b>1,144,780</b>	<b>974,861</b>	<b>1,674,810</b>
<b>Net Change in Fund Balance</b>	<b>\$ (1,259,415)</b>	<b>\$ (1,555,044)</b>	<b>\$ (286,553)</b>	<b>\$ 103,273</b>	<b>\$ 917,008</b>	<b>\$ 259,969</b>	<b>\$ 1,870,527</b>	<b>\$ (896,748)</b>	<b>\$ (1,317,808)</b>	<b>\$ 351,888</b>
<b>Debt service as a % of noncapital expenditures</b>	<b>2.71%</b>	<b>2.86%</b>	<b>6.89%</b>	<b>6.59%</b>	<b>6.64%</b>	<b>6.08%</b>	<b>6.09%</b>	<b>8.50%</b>	<b>6.78%</b>	<b>6.77%</b>

Source: Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

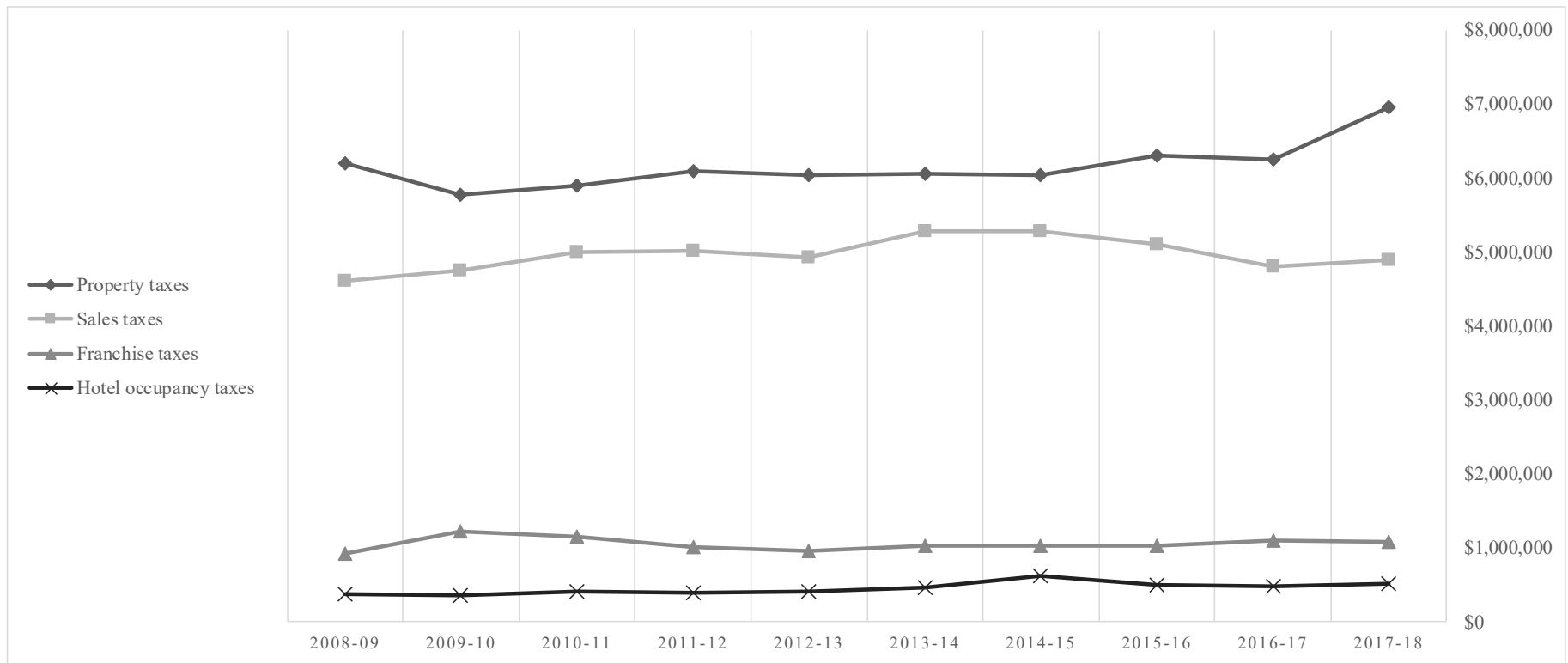


# CITY OF PALESTINE, TEXAS

## TAX REVENUES BY SOURCE

LAST TEN YEARS  
(Accrual Basis)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Property taxes	\$ 6,196,642	\$ 5,780,079	\$ 5,894,097	\$ 6,084,060	\$ 6,038,462	\$ 6,064,137	\$ 6,043,894	\$ 6,301,758	\$ 6,243,134	\$ 6,961,566
Sales taxes	4,610,272	4,760,522	5,004,661	5,010,002	4,928,256	5,286,024	5,273,872	5,103,185	4,797,388	4,897,612
Franchise taxes	922,516	1,227,490	1,147,029	1,005,088	954,779	1,028,350	1,023,089	1,027,661	1,105,224	1,091,211
Hotel occupancy taxes	381,692	357,810	420,773	389,350	405,620	472,305	625,958	501,072	487,240	513,814
<b>Total Revenues</b>	<b>\$ 12,111,122</b>	<b>\$ 12,125,901</b>	<b>\$ 12,466,560</b>	<b>\$ 12,488,500</b>	<b>\$ 12,327,117</b>	<b>\$ 12,850,816</b>	<b>\$ 12,966,813</b>	<b>\$ 12,933,676</b>	<b>\$ 12,632,986</b>	<b>\$ 13,464,203</b>

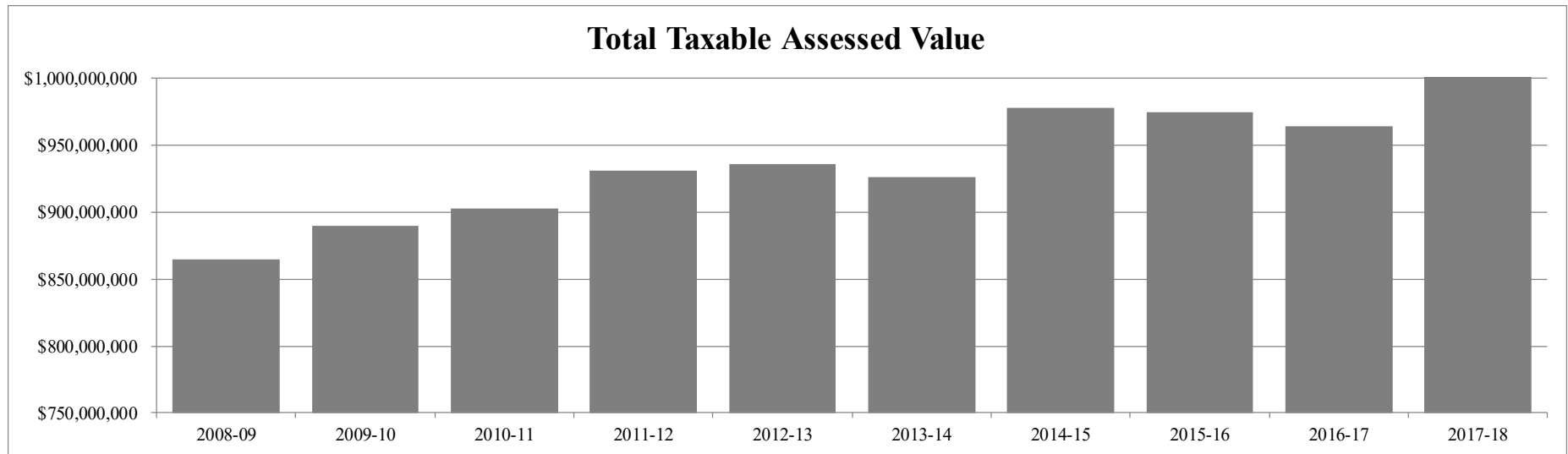


Source: Government-wide Statement of Activities

**CITY OF PALESTINE, TEXAS**  
**ASSESSED VALUE AND ESTIMATED VALUE OF TAXABLE PROPERTY**  
**LAST TEN YEARS**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Real Property	\$ 747,632,439	\$ 801,709,199	\$ 747,980,382	\$ 826,170,585	\$ 838,961,643	\$ 850,217,581	\$ 965,219,052	\$ 972,571,981	\$ 1,006,673,361	\$ 1,051,244,347
Personal Property	262,419,857	263,675,724	272,204,728	289,501,613	284,433,083	263,612,335	291,199,252	302,741,992	275,988,192	278,623,883
Less: Tax Exempt Property	(145,262,913)	(175,568,521)	(117,307,104)	(184,545,047)	(187,841,653)	(187,325,267)	(278,617,843)	(300,418,316)	(318,487,917)	(314,963,567)
<b>Total Taxable Assessed Value</b>	<b>\$ 864,789,383</b>	<b>\$ 889,816,402</b>	<b>\$ 902,878,006</b>	<b>\$ 931,127,151</b>	<b>\$ 935,553,073</b>	<b>\$ 926,504,649</b>	<b>\$ 977,800,461</b>	<b>\$ 974,895,657</b>	<b>\$ 964,173,636</b>	<b>\$ 1,014,904,663</b>

Total Direct Tax Rate <sup>(1)</sup>	0.639000	0.639000	0.639000	0.639000	0.639000	0.639000	0.648890	0.648890	0.648890	0.718741
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<sup>(1)</sup> Tax rates are per \$100 of assessed value.

Source: Anderson County Appraisal District, Certified Values

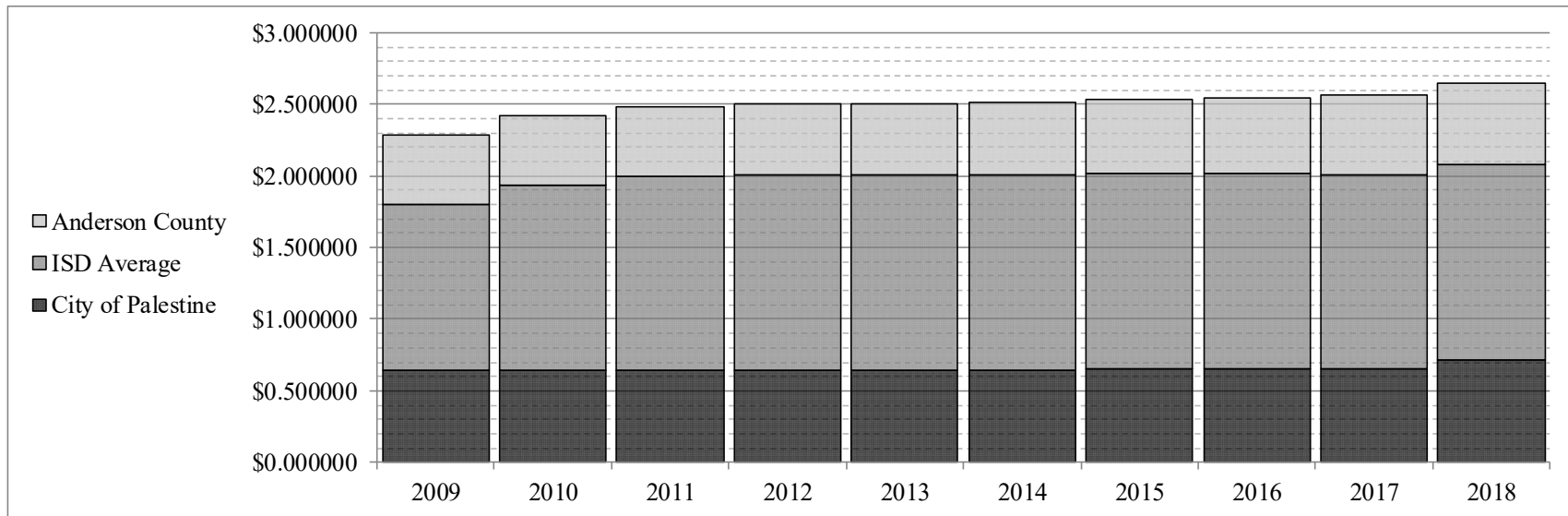
# CITY OF PALESTINE, TEXAS

## *PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS*

LAST TEN YEARS

(Tax Rates per \$100 of assessed valuation)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
City of Palestine										
General	0.594432	0.594968	0.534841	0.546870	0.546867	0.546867	0.562460	0.559760	0.543094	0.567820
Debt Service	0.044568	0.044032	0.104159	0.092130	0.092133	0.092133	0.086430	0.089130	0.105796	0.150921
<b>Total Direct Rates</b>	<b>0.639000</b>	<b>0.639000</b>	<b>0.639000</b>	<b>0.639000</b>	<b>0.639000</b>	<b>0.639000</b>	<b>0.648890</b>	<b>0.648890</b>	<b>0.648890</b>	<b>0.718741</b>
Palestine ISD	1.290700	1.549000	1.549000	1.566000	1.566000	1.566000	1.566000	1.566000	1.548000	1.548000
Westwood ISD	1.040000	1.040000	1.170000	1.170000	1.170000	1.170000	1.170000	1.170000	1.170000	1.170000
School Average	1.165350	1.294500	1.359500	1.368000	1.368000	1.368000	1.368000	1.368000	1.359000	1.359000
Anderson County	0.486450	0.486450	0.486450	0.498700	0.498700	0.503200	0.513780	0.528780	0.556400	0.567542
<b>Total Direct and Overlapping Rates</b>	<b>2.290800</b>	<b>2.419950</b>	<b>2.484950</b>	<b>2.505700</b>	<b>2.505700</b>	<b>2.510200</b>	<b>2.530670</b>	<b>2.545670</b>	<b>2.564290</b>	<b>2.645283</b>



Source: Anderson County Appraisal District

# CITY OF PALESTINE, TEXAS

## PRINCIPAL PROPERTY TAXPAYERS

### CURRENT YEAR AND NINE YEARS AGO

Property Taxpayer	2018			2009		
	Taxable Assessed	Rank	% of Taxable Assessed Value	Taxable Assessed	Rank	% of Taxable Assessed Value
	Value*			Value		
Wal-Mart Stores # Div Store	\$ 60,330,256	1	5.9%	\$ 75,217,102	1	8.7%
Sanderson Farms	13,822,584	2	1.4%			
Palestine Principal Healthcare Ltd.	13,756,007	3	1.4%	8,713,970	7	1.0%
Oncor Electric Delivery Co LLC	11,669,542	4	1.1%			
Union Pacific Railroad Co	11,085,406	5	1.1%	5,368,970	10	0.6%
Lowes of Palestine #1892	9,856,483	6	1.0%	12,647,870	3	1.5%
Palestine Principal Healthcare LP	7,601,433	7	0.7%	10,490,370	6	1.2%
Wal-Mart Real Estate Business Trust	7,440,857	8	0.7%			
Wal-Mart Super Center	7,300,218	9	0.7%			
Atmos Energy/Mid-Tex Distribution	7,252,944	10	0.7%			
Texas Utilites Electric Company				10,883,750	4	1.3%
Stallion Heavy Haulers				10,725,453	5	1.2%
Palestine Principal Healthcare				14,533,300	2	1.7%
Ben E Keith Beers				7,038,440	8	0.8%
United Telephone Co. of Texas				6,529,260	9	0.8%
Subtotal	150,115,730		14.8%	162,148,485		18.8%
Other taxpayers	864,788,933		85.2%	702,640,898		81.2%
Grand total	\$ 1,014,904,663		100.0%	\$ 864,789,383		100.0%

\*Source: Anderson County Appraisal District

**CITY OF PALESTINE, TEXAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN YEARS**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Tax levy	\$ 5,526,004	\$ 5,686,977	\$ 5,776,207	\$ 5,899,755	\$ 5,958,329	\$ 5,983,622	\$ 6,215,454	\$ 6,240,011	\$ 6,334,034	\$ 6,934,427
Current tax collected	\$ 5,330,293	\$ 5,432,161	\$ 5,609,450	\$ 5,671,371	\$ 5,768,078	\$ 5,809,458	\$ 5,829,394	\$ 6,080,505	\$ 6,006,972	\$ 6,801,857
Percent of current tax collections	96.46%	95.52%	97.11%	96.13%	96.81%	97.09%	93.79%	97.44%	94.84%	98.09%
Delinquent tax collections	\$ 190,151	\$ 14,647	\$ 146,112	\$ 132,744	\$ 190,198	\$ 125,024	\$ 119,282	\$ 100,204	\$ 86,471	\$ 91,706
Total tax collections	<u>\$ 5,520,444</u>	<u>\$ 5,446,808</u>	<u>\$ 5,755,562</u>	<u>\$ 5,804,115</u>	<u>\$ 5,958,277</u>	<u>\$ 5,934,482</u>	<u>\$ 5,948,675</u>	<u>\$ 6,180,709</u>	<u>\$ 6,093,443</u>	<u>\$ 6,893,563</u>
Total collections as a percentage of tax levy	99.90%	95.78%	99.64%	98.38%	100.00%	99.18%	95.71%	99.05%	96.20%	99.41%

# CITY OF PALESTINE, TEXAS

## *LEGAL DEBT MARGIN*

### LAST TEN YEARS

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Debt Limit	\$ 43,239,469	\$ 44,490,820	\$ 45,143,900	\$ 46,556,358	\$ 46,777,654	\$ 46,325,232	\$ 48,890,023	\$ 48,744,783	\$ 48,208,682	\$ 50,745,233
Total net debt applicable to limit	3,548,758	10,064,981	9,670,896	11,556,308	13,585,211	12,469,419	14,533,449	13,409,885	12,872,486	11,493,225
Legal debt margin	<u>\$ 39,690,711</u>	<u>\$ 34,425,839</u>	<u>\$ 35,473,004</u>	<u>\$ 35,000,050</u>	<u>\$ 33,192,443</u>	<u>\$ 33,855,813</u>	<u>\$ 34,356,574</u>	<u>\$ 35,334,898</u>	<u>\$ 35,336,196</u>	<u>\$ 39,252,008</u>
Total net debt applicable to the limit as a percentage of debt limit	8.2%	22.6%	21.4%	24.8%	29.0%	26.9%	29.7%	27.5%	26.7%	22.6%

**Legal Debt Margin Calculation:**

Assessed Value	\$ 1,014,904,663
Debt limit (5% of assessed value)	50,745,233
Debt applicable to limit:	
General obligation bonds	10,439,000
Less: amount set aside for repayment of general obligation debt	<u>1,054,225</u>
Total net debt applicable to limit	<u>11,493,225</u>
Legal Debt Margin	<u>\$ 39,252,008</u>

**CITY OF PALESTINE, TEXAS**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST TEN YEARS**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Primary Government</b>										
Governmental Activities:										
Capital leases	\$ 372,207	\$ 700,812	\$ 554,301	\$ 772,863	\$ 689,159	\$ 492,533	\$ 473,329	\$ 817,066	\$ 1,322,300	\$ 962,850
Certificates of obligation	3,455,000	9,972,000	9,582,000	9,152,000	8,702,000	8,242,000	10,317,000	9,427,000	8,719,000	7,989,000
Subtotal	3,827,207	10,672,812	10,136,301	9,924,863	9,391,159	8,734,533	10,790,329	10,244,066	10,041,300	8,951,850
Business-Type Activities:										
Capital Leases	\$ 569,926	\$ 384,278	\$ 199,920	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of obligation	-	-	-	2,005,000	4,070,000	3,455,000	3,250,000	2,995,000	2,730,000	2,450,000
Revenue bonds	15,255,000	14,997,448	13,519,208	9,978,630	8,314,947	7,598,310	6,701,452	6,077,823	5,437,878	4,776,258
Subtotal	15,824,926	15,381,726	13,719,128	11,983,630	12,384,947	11,053,310	9,951,452	9,072,823	8,167,878	7,226,258
<b>Total Primary Government</b>	<b>\$ 19,652,133</b>	<b>\$ 26,054,538</b>	<b>\$ 23,855,429</b>	<b>\$ 21,908,493</b>	<b>\$ 21,776,106</b>	<b>\$ 19,787,843</b>	<b>\$ 20,741,781</b>	<b>\$ 19,316,889</b>	<b>\$ 18,209,178</b>	<b>\$ 16,178,108</b>
Personal Income <sup>(1)</sup>	\$ 18,950	\$ 18,950	\$ 18,950	\$ 18,950	\$ 20,636	\$ 20,636	\$ 20,636	\$ 20,636	\$ 20,636	\$ 20,227
<b>Debt as a Percentage of Personal Income</b>	5.71%	7.35%	6.74%	6.20%	5.69%	5.21%	5.49%	5.09%	4.80%	4.37%
Population <sup>(1)</sup>	\$ 18,166	\$ 18,712	\$ 18,690	\$ 18,637	\$ 18,550	\$ 18,391	\$ 18,313	\$ 18,383	\$ 18,393	\$ 18,306
<b>Debt per Capita</b>	\$ 1,082	\$ 1,392	\$ 1,276	\$ 1,176	\$ 1,174	\$ 1,076	\$ 1,133	\$ 1,051	\$ 990	\$ 884

<sup>(1)</sup> Source: <https://www.census.gov/quickfacts/fact/table/palestinecitytexas/INC110217#INC110217>

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

**CITY OF PALESTINE, TEXAS**  
**RATIOS OF NET BONDED DEBT TO ASSESSED VALUE, NET BONDED DEBT PER CAPITA,**  
**AND ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST TEN YEARS**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Net Taxable Assessed Value</b>										
All property	\$ 864,789,383	\$ 889,816,402	\$ 902,878,006	\$ 931,127,151	\$ 935,553,073	\$ 926,504,649	\$ 977,800,461	\$ 974,895,657	\$ 964,173,636	\$ 1,014,904,663
<b>Net Bonded Debt</b>										
Gross bonded debt	\$ 3,455,000	\$ 9,972,000	\$ 9,582,000	\$ 11,157,000	\$ 12,772,000	\$ 11,697,000	\$ 13,567,000	\$ 12,422,000	\$ 11,449,000	\$ 10,439,000
Less: debt service funds	(93,758)	(92,981)	(88,896)	(399,308)	(813,211)	(772,419)	(966,449)	(987,885)	(1,423,486)	(1,054,225)
<b>Net Bonded Debt</b>	<b>\$ 3,361,242</b>	<b>\$ 9,879,019</b>	<b>\$ 9,493,104</b>	<b>\$ 10,757,692</b>	<b>\$ 11,958,789</b>	<b>\$ 10,924,581</b>	<b>\$ 12,600,551</b>	<b>\$ 11,434,115</b>	<b>\$ 10,025,514</b>	<b>\$ 9,384,775</b>
<b>Ratio of net bonded debt to assessed value</b>	0.39%	1.11%	1.05%	1.16%	1.28%	1.18%	1.29%	1.17%	1.04%	0.92%
Population <sup>(1)</sup>	18,166	18,712	18,690	18,637	18,550	18,391	18,313	18,383	18,393	18,306
<b>Net bonded debt per capita</b>	<b>\$ 185</b>	<b>\$ 528</b>	<b>\$ 508</b>	<b>\$ 577</b>	<b>\$ 645</b>	<b>\$ 594</b>	<b>\$ 688</b>	<b>\$ 622</b>	<b>\$ 545</b>	<b>\$ 513</b>

<sup>(1)</sup> Source: <https://www.census.gov/quickfacts/fact/table/palestinecitytexas/INC110217#INC110217>



**CITY OF PALESTINE, TEXAS**  
***DIRECT AND OVERLAPPING DEBT***  
**AS OF SEPTEMBER 30, 2018**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable <sup>(1)</sup></u>	<u>Estimated Share of Overlapping Debt</u>
City of Palestine			
Certificates of Obligation	\$ 7,989,000	100%	\$ 7,989,000
Capital Leases	<u>962,850</u>	100%	<u>962,850</u>
	8,951,850		8,951,850
 Palestine Independent School District			
General Obligation Bonds	53,265,000	79%	42,323,745
Maintenance Tax Notes	<u>6,420,000</u>	79%	<u>5,101,257</u>
	59,685,000		47,425,002
 Anderson County, Texas			
General Obligation Bonds	12,495,000	37%	4,644,000
Capital leases	<u>77,061</u>	37%	<u>28,641</u>
	12,572,061		4,672,641
			<u><u>\$ 61,049,493</u></u>

<sup>(1)</sup> The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the position of the overlapping district's assessed value that is within the boundaries of the City divided by the overlapping district's total taxable assessed value.

**CITY OF PALESTINE, TEXAS**  
**PLEDGE REVENUE COVERAGE**  
**AS OF SEPTEMBER 30, 2018**

Water and Sewer Revenue Bonds

Fiscal Year	Total Revenues	Less: Operating Expenses	Net Available Revenue	Annual Debt Service Requirement	Times Coverage
2009	\$ 6,111,345	\$(4,751,462)	\$ 1,359,883	\$ 1,309,891	1.04
2010	6,256,028	(5,360,860)	895,168	1,350,032	0.66
2011	6,688,587	(5,852,791)	835,796	1,833,582	0.46
2012	6,567,752	(6,189,779)	377,973	1,853,616	0.20
2013	6,754,329	(6,171,184)	583,145	1,245,206	0.47
2014	7,167,703	(6,076,684)	1,091,019	949,883	1.15
2015	7,616,643	(5,558,956)	2,057,687	956,947	2.15
2016	7,260,135	(5,906,412)	1,353,723	725,513	1.87
2017	7,059,064	(6,737,743)	321,321	694,996	0.46
2018	7,329,072	(6,628,099)	700,973	696,526	1.01

Retail Revenue Bonds

Fiscal Year	Total Revenues	Less: Operating Expenses	Net Available Revenue	Annual Debt Service Requirement	Times Coverage
2009	\$ -	\$ -	\$ -	\$ -	-
2010	347,594	(150,654)	196,940	50,970	3.86
2011	499,361	(291,643)	207,718	136,114	1.53
2012	514,542	(319,155)	195,387	118,618	1.65
2013	537,242	(322,817)	214,425	120,290	1.78
2014	598,764	(366,735)	232,029	115,225	2.01
2015	586,100	(482,210)	103,890	113,852	0.91
2016	618,562	(355,291)	263,271	88,093	2.99
2017	558,848	(463,507)	95,341	117,595	0.81
2018	549,528	(428,691)	120,837	119,649	1.01

**CITY OF PALESTINE, TEXAS**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
**LAST TEN YEARS**

Fiscal Year Ending	Population <sup>(1)</sup>	Personal Income <sup>(1)</sup>	Per capita Income	Unemployment Rate <sup>(2)</sup>
2008	18,166	\$ 477,748	\$ 26,299	5.7%
2009	18,166	\$ 477,112	\$ 26,264	5.7%
2010	18,712	\$ 490,797	\$ 26,229	8.7%
2011	18,690	\$ 505,396	\$ 27,041	9.5%
2012	18,637	\$ 539,839	\$ 28,966	8.3%
2013	18,550	\$ 560,210	\$ 30,200	5.8%
2014	18,391	\$ 585,110	\$ 31,815	5.0%
2015	18,313	\$ 576,860	\$ 31,500	4.5%
2016	18,383	\$ 400,510	\$ 21,787	4.5%
2017	18,393	\$ 400,728	\$ 21,787	3.7%
2018	18,306	\$ 697,861	\$ 38,122	3.7%

Data sources:

<sup>(1)</sup> US Census

<sup>(2)</sup> Bureau of Labor Statistics (2018 rate is for entire state of Texas)

# CITY OF PALESTINE, TEXAS

## *PRINCIPAL EMPLOYERS*

### CURRENT YEAR AND NINE YEARS AGO

Employer	2018			2009 <sup>(1)</sup>		
	Employees	Rank	% of Total Employment	Employees	Rank	% of Total Employment
Wal-Mart Distribution	1,258	1	8.5%	n/a	n/a	n/a
Palestine Regional Medical & Palestine ISD	560	2	3.8%	n/a	n/a	n/a
Wal-Mart Retail	520	3	3.5%	n/a	n/a	n/a
Westwood ISD	389	4	2.6%	n/a	n/a	n/a
Anderson County	265	5	1.8%	n/a	n/a	n/a
City of Palestine	220	6	1.5%	214	n/a	n/a
Legacy	187	7	1.3%	187	n/a	n/a
The Results Company	185	8	1.3%			
Union Pacific Railroad	150	9	1.0%			
Ben E. Keith	132	10	0.9%	n/a	n/a	n/a
Blue Cross & Blue Shield of Texas				n/a	n/a	n/a
CapGemini Energy				n/a	n/a	n/a
Aerospace Fasteners				n/a	n/a	n/a
Columbia Scientific Balloon Facility				n/a	n/a	n/a
Palestine Concrete				n/a	n/a	n/a
Terry Manufacturing				n/a	n/a	n/a
Subtotal	3,866					
Other employers	10,873 <sup>(2)</sup>					
Grand total	14,739					

<sup>(1)</sup> The number of employees was not recorded in 2009 Annual Report, and is not available at this time.

<sup>(2)</sup> Source: U.S. Census

# CITY OF PALESTINE, TEXAS

## *FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM LAST TEN YEARS*

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
General Fund:										
Administration	17.0	18.0	18.0	18.0	17.0	16.0	14.0	13.0	18.0	16.0
Police	48.5	51.0	51.0	52.0	54.0	56.0	58.0	59.0	46.3	53.0
Fire	39.0	41.0	41.0	41.0	41.0	41.0	40.0	40.0	39.0	32.0
Public Works	17.0	18.0	18.0	18.0	16.0	14.0	12.5	9.5	12.0	11.0
Parks	10.0	10.0	10.0	10.0	10.5	10.5	10.5	11.0	14.5	9.0
Library	13.5	14.0	14.0	14.0	13.0	10.0	10.0	10.0	10.5	9.0
Code Enforcement	7.0	7.0	7.0	7.0	7.0	7.0	8.0	8.0	9.0	- *
<b>General Fund Total</b>	<b>152.0</b>	<b>159.0</b>	<b>159.0</b>	<b>160.0</b>	<b>158.5</b>	<b>154.5</b>	<b>153.0</b>	<b>150.5</b>	<b>149.3</b>	<b>130.0</b>
Enterprise Funds:										
Tourism	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Airport	1.5	2.0	2.0	-	-	-	-	-	-	-
Central Warehouse	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-	-	-
Retail Mall	-	-	-	-	-	-	-	3.0	3.0	2.0
Sanitation	18.5	19.0	19.0	19.0	16.0	13.0	9.0	6.0	7.0	4.0
Water	10.0	10.0	10.0	10.0	13.5	17.0	20.5	24.0	24.5	20.0
Wastewater	2.0	2.0	2.0	2.0	4.0	7.0	9.0	11.0	11.0	13.0
<b>Enterprise Fund Total</b>	<b>37.0</b>	<b>38.0</b>	<b>38.0</b>	<b>36.0</b>	<b>38.5</b>	<b>42.0</b>	<b>43.5</b>	<b>48.0</b>	<b>49.5</b>	<b>43.0</b>
<b>Total City Positions</b>	<b>189.0</b>	<b>197.0</b>	<b>197.0</b>	<b>196.0</b>	<b>197.0</b>	<b>196.5</b>	<b>196.5</b>	<b>198.5</b>	<b>198.8</b>	<b>173.0</b>

\* Code enforcement has been moved to police.

**CITY OF PALESTINE, TEXAS**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**LAST TEN YEARS**

Function / Program	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Police</b>										
Arrests	1,449	1,498	1,224	1,017	795	930	1,032	1,483	1,016	1,177
Accident reports	515	543	442	470	418	464	397	474	431	434
Citations	2,734	1,488	1,378	1,488	2,116	1,745	1,752	2,708	2,013	2,158
Offense reports	3,620	3,394	3,839	2,124	2,648	2,830	2,423	2,692	1,966	2,360
Calls for service	23,944	30,239	24,416	24,046	27,930	27,211	27,381	25,290	21,746	24,806
<b>Fire</b>										
Emergency responses	917	997	1,119	1,097	1,222	1,264	1,191	1,165	1,239	1,697
Fire incidents	141	141	152	103	124	117	113	76	81	105
Average response time	3:00	3:00	3:00	3:00	3:00	3:00	3:00	3:00	3:00	3:00
<b>Water</b>										
Number of users	7,420	7,421	7,421	7,421	7,847	7,874	7,787	7,789	7,763	7,397
Source	surface	surface	surface	surface	surface	surface	surface	surface	surface	surface
Average daily consumption (millions of gallons)	2.704	2.795	2.926	3.956	4.301	3.904	2.553	2.600	2.529	2.479
Total consumption (millions of gallons)	987	1,020	1,068	1,444	1,570	1,425	932	949	923	864
Peak daily consumption (millions of gallons)	6.278	5.155	7.659	7.659	8.000	7.000	6.000	5.000	5.000	5.838
<b>Wastewater</b>										
Average daily sewage treatment (millions of gallons)	2.03	0.93	0.25	3.05	3.18	3.25	2.43	2.20	1.84	2.66
Total treatment (millions of gallons)	741.0	340.2	931.0	1,111.0	1,160.3	1,177.2	885.0	808.9	614.2	959.4
Peak daily consumption (millions of gallons)	5.97	4.68	5.53	6.01	4.44	4.08	3.57	3.81	3.10	4.17

Source: Various City departments

**CITY OF PALESTINE, TEXAS**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**  
**LAST TEN YEARS**

Function / Program	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	3	3	3	3	3	3	3	3	3	3
<b>Fire stations</b>										
Number of stations	4	4	4	4	4	4	4	4	4	4
Number of stations (operational)	3	3	3	3	3	3	3	3	3	3
<b>Other public works</b>										
Streets (miles - centerlines)	134.2	134.2	134.2	134.2	134.2	134.2	134.2	134.2	134.2	134.2
Streetlights	2,044	2,044	2,044	2,044	2,044	2,044	2,050	2,050	2,050	2,050
<b>Parks and recreation</b>										
Parks	14	14	14	14	14	14	14	14	14	14
Parks acreage	104.8	104.8	104.8	161.0	161.0	161.0	161.0	161.0	161.0	161.0
Community Forest	1	1	1	1	1	1	1	1	1	1
Community Forest acreage	900.0	900.0	900.0	900.0	900.0	900.0	900.0	900.0	900.0	900.0
Swimming pools	1	1	1	1	1	1	1	1	1	1
Baseball / softball diamonds	8	8	8	15	15	15	15	15	15	15
Soccer Fields	1	1	1	1	1	1	1	1	1	1
Tennis courts	6	6	6	6	6	6	6	6	6	6
Basketball courts	4	4	4	4	4	4	4	4	4	4
<b>Water</b>										
Water mains (miles)	123.1	123.1	123.1	123.1	123.1	123.1	123.1	123.1	123.1	123.1
Fire hydrants	990	990	990	990	990	990	990	990	990	990
Storage capacity (millions of gallons)	3.27	3.27	3.27	3.27	3.27	3.27	3.27	3.27	3.27	3.27
Plant capacity (millions of gallons)	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
<b>Sewer</b>										
Sanitary sewers (miles)	118.7	118.7	118.7	118.7	118.7	118.7	118.7	118.7	118.7	118.7
Storm sewers (miles)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Treatment capacity (millions of gallons)	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60

Source: Various City departments

***GOVERNMENTAL COMPLIANCE SECTION***



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Palestine, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Palestine, Texas' basic financial statements and have issued our report thereon dated March 18, 2019.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings to be material weaknesses. (18-001, 18-002).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Palestine, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 18-003.

**City of Palestine, Texas' Response to Findings**

City of Palestine, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of This Report**

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

*Frank Campos & Associates PLLC*

Frank Campos & Associates, PLLC  
Palestine, Texas  
March 18, 2019

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF FINDINGS**  
**SEPTEMBER 30, 2018**

**MATERIAL WEAKNESSES**

**18-001: Reconciliations and Monitoring**

*Criteria*

Basic internal control provides for proper segregation of various accounting functions, reconciliation of financial transactions to the general ledger, and monitoring that these functions are being performed timely and accurately.

*Condition*

During the audit, we noted the following conditions:

1. Bank reconciliations for 2 out of 11 accounts were not completed correctly. Entries to the general ledger were made subsequent to the cash accounts being reconciled. Furthermore, the reconciliations were not updated to reflect these changes, so the reconciled amount did not agree to the general ledger.
2. General fund and retail fund miscellaneous receivables subledgers were not reconciled to the general ledger, so they did not agree at yearend.
3. Multiple receivable balances including mixed beverage tax receivable, electrical franchise tax receivable, hotel occupancy tax receivable, grant receivables, and stop-loss recoveries receivable were not recorded at yearend or not adjusted from the prior year.
4. Principal payments on retail debt were expensed instead of applied against the loan amount. In addition, accrued interest payable on long-term debt was not adjusted from the prior year for two out of four funds.
5. Claims payable was not adjusted from the prior year.

*Cause*

During the year, there was high turnover in the finance director position with three separate individuals working in the position. The City contracted with a third-party agency to obtain interim finance directors towards the end of the year. Since the individuals serving at the end of the fiscal year, who were in charge of the yearend closing process, were only contracted to be there for a short amount of time and had not been there all year, they had limited time to review and make corrections.

*Effect or Potential Effect*

The effects were material misstatements of the City's financial report. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected. In addition, monthly financial reports used to make managerial decisions may contain errors since the accounts are not properly and completely reconciled.

*Recommendation*

We recommend that the City maintain its month-end closing process throughout the year to ensure proper and complete reconciliations are performed each month and reviewed by the Finance Director which will reduce the burden of the yearend closing process to allow for adequate time to review and record receivables and payables.

*Management's Response*

The City concurs with this finding, and has with a change in staffing and improved training implemented a monthly closeout that will allow the Finance Director to fully review all transactions occurring in the prior month before the prior month is closed.

**18-002: Reporting under GASB**

*Criteria*

A good system of internal control over financial reporting includes a person with the skills, knowledge, and experience in governmental accounting to ensure proper reporting in compliance with Governmental Accounting Standards and adherence to relevant local government code.

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF FINDINGS, CONTINUED**  
**SEPTEMBER 30, 2018**

**MATERIAL WEAKNESSES, CONTINUED**

**18-002: Reporting under GASB, Continued**

*Condition*

During the audit, we noted the following conditions:

1. Failure to identify 9 payments in the subsequent period that should have been recorded as a liability in the current period.
2. Failure to properly record receivable from component unit on the City's general ledger and failure to properly record payable to City on PEDC's general ledger.
3. An entry to combine three funds was posted incorrectly resulting in an overstatement of cash and an understatement of expenses.
4. Court fines receivable, property tax receivable, allowance for uncollectible property tax accounts, and unavailable property tax revenue were miscalculated.
5. Fund balance/net position did not roll from the prior year because entries were incorrectly made to fund balance/net position during the year.

*Cause*

During the year, there was high turnover in the finance director position with three separate individuals working in the position. The City contracted with a third-party agency to obtain interim finance directors towards the end of the year. Since the individuals serving at the end of the fiscal year, who were in charge of the yearend closing process, were only contracted to be there for a short amount of time and had not been there all year, they had limited time to review and make corrections.

*Effect or Potential Effect*

The effects were material misstatements of the City's financial report. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected. In addition, monthly financial reports used to make managerial decisions may contain errors since the accounts are not properly and completely reconciled.

*Recommendation*

We recommend that the City maintain its month-end closing process throughout the year to ensure proper and complete reconciliations are performed each month and reviewed by the Finance Director which will reduce the burden of the yearend closing process to allow for adequate time to review general ledger accounts and correct errors.

*Management's Response*

The City concurs with this finding, and has with a change in staffing and improved training implemented a monthly closeout that will allow the Finance Director to fully review all transactions occurring in the prior month before the prior month is closed.

**NONCOMPLIANCE**

**18-003: Compliance Reporting**

*Criteria*

Texas Code of Criminal Procedure Chapter 59, Forfeiture of Contraband, requires annual reporting of seized and forfeited funds.

*Condition*

During the audit, we noted the following condition:

1. The annual report due to the state related to compliance for police forfeitures was not completed and submitted during the year.

*Cause*

Turnover in department heads led to the oversight of report filings.

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF FINDINGS, CONTINUED**  
**SEPTEMBER 30, 2018**

**NONCOMPLIANCE, CONTINUED**

**18-003: Compliance Reporting, Continued**

*Effect or Potential Effect*

The City was not in compliance with the Texas Code of Criminal Procedure because it did not file its annual report. Noncompliance with laws can result in fines and forfeiture of money.

*Recommendation*

We recommend that the City implement policies and procedures to ensure that compliance reporting is completed even in the absence of department heads.

*Management's Response*

The City concurs with this finding, and is working with the Assistant Police Chief to file the Chapter 59 report as quickly as possible. It is understood that the Chapter 59 report is a joint responsibility and must be properly coordinated between both departments prior to the October deadline.

**CITY OF PALESTINE, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**SEPTEMBER 30, 2018**

<b>Finding</b>	<b>Current Status</b>
<b>17-001: Reconciliations and Monitoring</b>	
<ol style="list-style-type: none"> <li>1. Bank reconciliations were not complete. Reconciliations were not updated to reflect entries to the general ledger after initial reconciliation and did not agree to the general ledger.</li> <li>2. Bank reconciliations included multiple large outstanding items for a long period of time.</li> <li>3. Outstanding transfers between bank accounts did not net to zero.</li> <li>4. Bank reconciliations were incorrectly used as a means of recording receivables and payables between funds instead of recording these transactions on the general ledger.</li> <li>5. Enterprise receivable subledgers were not reconciled to the general ledger, so they did not agree at yearend.</li> <li>6. Multiple receivable balances were not recorded at yearend or not adjusted from the prior year.</li> <li>7. Principal payments on enterprise debt were expensed instead of applied against the loan amount. Also, accrued interest payable on long-term debt was not adjusted from the prior year.</li> <li>8. Other long-term debt was not adjusted from the prior year.</li> <li>9. Consolidated cash on the general ledger was overdrawn by \$87,228 at yearend due to outstanding checks and transfers.</li> </ol>	See current year finding 18-001.
<b>17-002 Reporting Under GASB</b>	
<ol style="list-style-type: none"> <li>1. Multiple instances were noted where journal entries to the general ledger were posted backwards.</li> <li>2. Multiple instances were noted where journal entries to the general ledger were posted in the wrong period.</li> <li>3. Multiple instances were noted where journal entries were posted more than once resulting in duplicates.</li> <li>4. The City failed to identify a number of assets for capitalization.</li> <li>5. The City failed to identify a number of payments in the subsequent period that should have been recorded as a liability in the current period.</li> <li>6. Multiple increases were noted where a payable was recorded for an expense that was already recorded in consolidated payables.</li> <li>7. The City failed to identify payable from component unit to the City.</li> <li>8. The City failed to identify a number of prepaid expenses.</li> <li>9. One instance was noted in which stop loss recoveries were recorded as a transfer from other funds instead of as an offset to expenses.</li> <li>10. One instance was noted in which a payable was recorded in the current year for an expense related to the subsequent year.</li> <li>11. Multiple instances were noted where forfeited money was recorded as revenue before a final judgement was made.</li> <li>12. Two instances were noted in which loan cost related to new long-term debt was not recorded and instead, debt was recorded net of loan cost resulting in an understatement of long-term debt and understatement of expenses.</li> <li>13. Multiple instances were noted in which assets purchased with loan proceeds from long-term debt in the equipment replacement fund were expensed in the general fund.</li> <li>14. It was noted that there was one month in which retail leases were billed twice resulting in overstatement of receivables and revenue.</li> <li>15. Interfund receivables and payables did not net to zero at yearend.</li> <li>16. Interfund transfers in and out did not net to zero at yearend.</li> <li>17. Restricted cash was spent on unrestricted expenditures.</li> <li>18. Pooled cash balances in multiple funds did not agree to the pooled cash report.</li> </ol>	See current year finding 18-002.

**CITY OF PALESTINE, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS, CONTINUED**  
**SEPTEMBER 30, 2018**

<b>Finding</b>	<b>Current Status</b>
<b>17-003 Grant Accounting</b>	
<ol style="list-style-type: none"> <li>1. Multiple instances were noted in which revenue and expenses related to one grant were recorded in the same fund as another grant when each grant is required to be recorded in separate funds.</li> <li>2. Multiple instances were noted in which grant receivables were either not recorded at yearend or not adjusted from the prior year.</li> <li>3. One instance was noted in which an expense reimbursed by a grant was then also reimbursed by the County.</li> </ol>	Finding was resolved during the year.
<b>17-004: Budget</b>	
<ol style="list-style-type: none"> <li>1. The City received an invoice in December of 2016 for a lease payment of \$1,000 to Union Pacific that was past due making the lease subject to termination. This expense was not budgeted for in the current year, so the City coded the expense to an incorrect account.</li> <li>2. The general fund expenditures (including transfers out) were over budget by \$396,841.</li> </ol>	Finding was resolved during the year.
<b>17-005: Payments</b>	
<ol style="list-style-type: none"> <li>1. Multiple instances were noted in which payments on invoices were not made timely resulting in additional fees.</li> <li>2. Multiple instances were noted in which payments on invoices were made timely but the City still incorrectly paid the additional fee.</li> <li>3. One instance was noted in which an expense was paid twice.</li> </ol>	Finding was resolved during the year.
<b>17-006: Compliance Reporting</b>	
<ol style="list-style-type: none"> <li>1. The annual report due to the state related to compliance for police forfeitures was not completed and submitted during the year.</li> </ol>	See current year finding 18-003.