

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF PALESTINE, TEXAS**

For the Year Ended September 30, 2015

**Officials Issuing Report:**

**Mike Alexander, Interim City Manager**  
**Larry Pannell, Assistant City Manager/CFO**

**CITY OF PALESTINE, TEXAS**  
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September 30, 2015

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***FINANCIAL SECTION***

# FRANK CAMPOS & ASSOCIATES

A Professional Limited Liability Company  
Of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Palestine, TX

### 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 units, each major fund, and the aggregate remaining fund information of City of Palestine, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprises 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 units, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas as of September 30, 2015, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member of Texas Society of CPAs and American Institute of CPAs

901 N. Mallard St. P.O. Box 2918 Palestine, Texas 75801

903-723-6064 Fax 903-723-2076

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedules of funding progress on pages 3-11 and 49-52 be presented to supplement the basic financial statements. Such information; although not a part of the basic financial statements, are 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, excluding budgeting 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. 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's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of the City of Palestine, Texas's 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 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's internal control over financial reporting and compliance.

*Frank Campos*

Frank Campos & Associates, PLLC

March 29, 2016

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# CITY OF PALESTINE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### September 30, 2015

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-ending September 30, 2015. 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 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.

#### **THE STRUCTURE OF OUR 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, and sanitation.

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



**CITY OF PALESTINE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
**September 30, 2015**

**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 26 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, which is considered to be a major fund. The City adopts an annual appropriated budget for its general fund and several of the special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

**Proprietary Funds**

The City maintains three 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, wastewater collection/treatment, solid waste and retail operations. The proprietary fund financial statements provide separate information for the water distribution, wastewater collection/treatment, solid waste, and retail funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

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.

**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, schedule of changes in pension liability and related ratios, schedule of contributions for the Texas Municipal Retirement System and schedule of funding progress post-employment health care benefits. RSI can be found after the basic financial statements.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**

**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 exceed liabilities by \$34,097,824 as of year-end 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 (88%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide 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		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 7,966,095	\$ 5,279,270	\$ 7,621,229	\$ 7,112,634	\$ 15,587,324	\$ 12,391,904
Capital assets	19,274,802	18,472,592	29,173,700	29,809,089	48,448,502	48,281,681
Total assets	27,240,897	23,751,862	36,794,929	36,921,723	64,035,826	60,673,585
Deferred outflows	1,306,655	-	267,629	-	1,574,284	-
Other liabilities	828,205	705,688	523,630	433,972	1,351,835	1,139,660
Long-term liabilities	18,598,563	10,509,946	11,341,350	11,225,512	29,939,913	21,735,458
Total liabilities	19,426,768	11,215,634	11,864,980	11,659,484	31,291,748	22,875,118
Deferred inflows	183,047	-	37,491	-	220,538	-
Net Position:						
Invested in capital assets,						
net of related debt	8,484,473	9,738,059	21,588,418	22,105,703	30,072,891	31,843,762
Restricted	1,901,250	1,787,424	1,192,779	1,412,470	3,094,029	3,199,894
Unrestricted	(1,447,986)	1,010,745	2,378,890	1,744,066	930,904	2,754,811
Total net position	\$ 8,937,737	\$ 12,536,228	\$ 25,160,087	\$ 25,262,239	\$ 34,097,824	\$ 37,798,467

A portion of the primary government's net position, \$3,094,029, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$930,904, may be used to meet the City's ongoing obligation to citizens and creditors. The overall financial condition of the City increased during the year due to the local economy improving. Due to new governmental accounting changes to report pension liability on the City's financial statements the cumulative change to City's unrestricted fund balance decreased by 7,011,449.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**

**Statement of Activities**

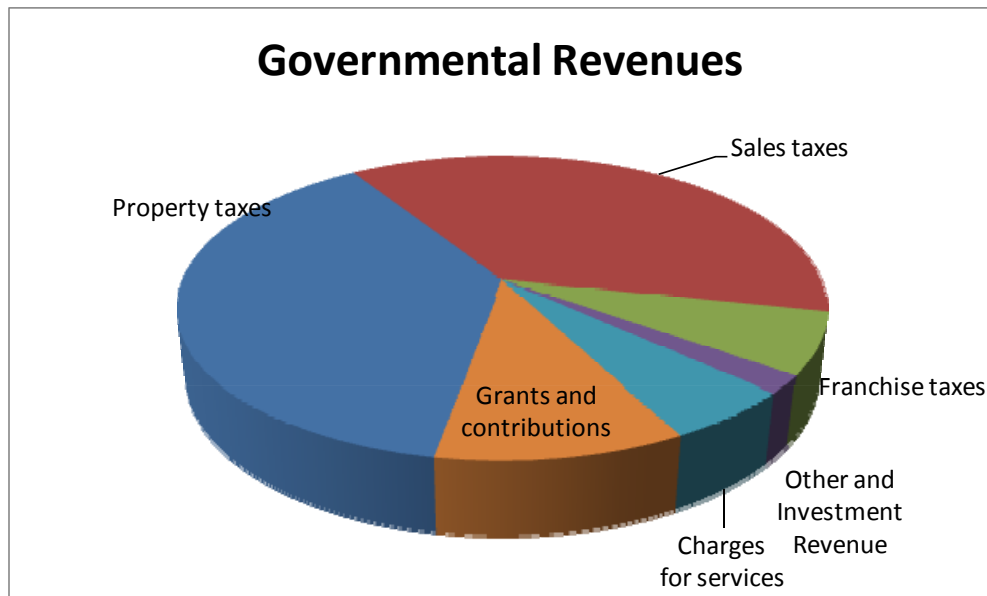
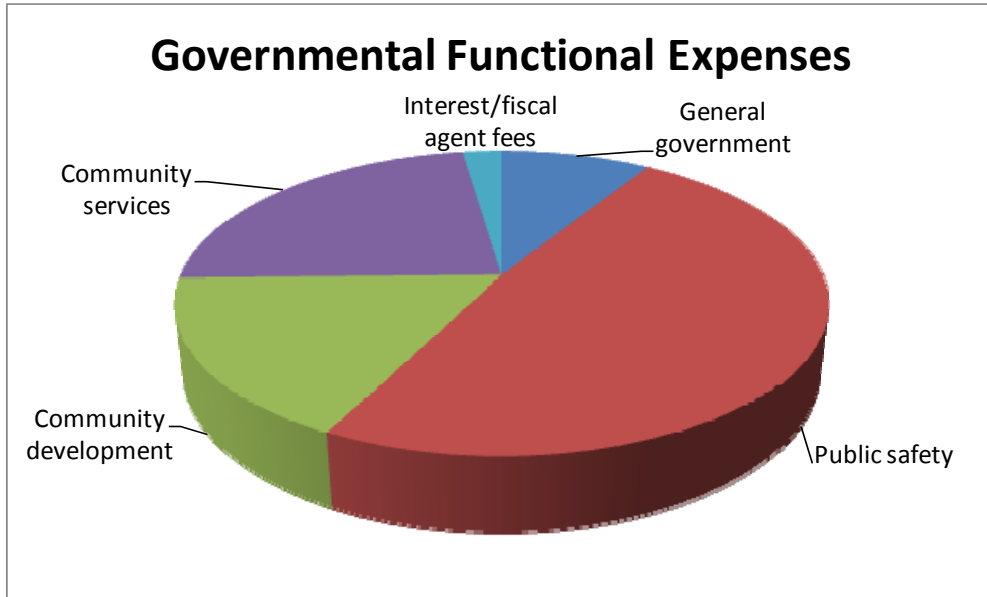
The following table provides a summary of the City's changes in net position:

CITY OF PALESTINE'S CHANGES IN NET POSITION

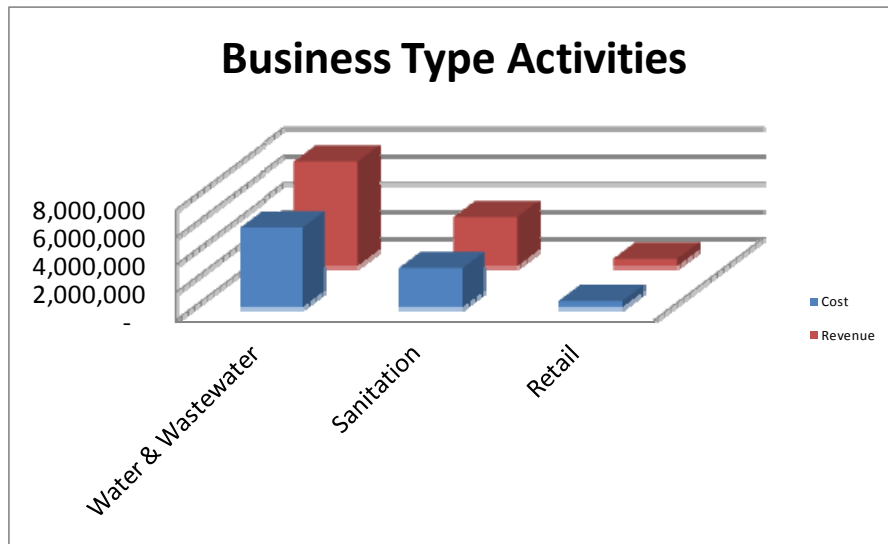
	Governmental Activities		Business -type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 891,745	\$ 652,729	\$ 11,799,769	\$ 11,030,492	\$ 12,691,514	\$ 11,683,221
Operating grants and contributions	779,532	318,983	-	-	779,532	318,983
Capital grants and contributions	876,516	456,214	-	-	876,516	456,214
General revenues:						
Property taxes	6,043,894	6,064,137	-	-	6,043,894	6,064,137
Sales taxes	5,899,830	5,758,329	-	-	5,899,830	5,758,329
Franchise taxes	1,023,089	1,028,350	-	-	1,023,089	1,028,350
Investment earnings	19,336	56,468	3,118	7,771	22,454	64,239
Gain on sale of assets	102,283	-	-	-	102,283	-
Other income (loss)	180,662	400,452	-	-	180,662	400,452
Total revenues	15,816,887	14,735,662	11,802,887	11,038,263	27,619,774	25,773,925
Expenses:						
General government	1,490,998	1,668,925	-	-	1,490,998	1,668,925
Public safety	7,212,271	7,774,512	-	-	7,212,271	7,774,512
Community services	3,461,113	3,902,102	-	-	3,461,113	3,902,102
Community development	2,598,872	2,074,544	-	-	2,598,872	2,074,544
Interest on long-term debt	348,349	322,608	-	-	348,349	322,608
Water and Wastewater	-	-	5,817,415	6,319,451	5,817,415	6,319,451
Sanitation	-	-	2,871,842	2,774,345	2,871,842	2,774,345
Retail	-	-	508,108	396,571	508,108	396,571
Total expenses	15,111,603	15,742,691	9,197,365	9,490,367	24,308,968	25,233,058
Increases (decreases) in net assets before transfers	705,284	(1,007,029)	2,605,522	1,547,896	3,310,806	540,867
Transfers	857,729	693,316	(857,729)	(693,316)	-	-
Change in net position	1,563,013	(313,713)	1,747,793	854,580	3,310,806	540,867
Net Position - beginning	12,536,228	12,849,941	25,262,239	24,407,659	37,798,467	37,257,600
Prior Period Adjustment	(5,161,504)	-	(1,849,945)	-	(7,011,449)	-
Net Position- ending	\$ 8,937,737	\$ 12,536,228	\$ 25,160,087	\$ 25,262,239	\$ 34,097,824	\$ 37,798,467

**CITY OF PALESTINE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
**September 30, 2015**

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



**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**



For the year, revenue from governmental activities totaled \$15,816,887. Property and sales tax revenues are the City's largest revenue sources. Property taxes decreased by .33%, while sales taxes increased by 2.5%. The local economy is slowly improving from the recession in 2010 that affected the entire country.

Franchise fees collected from electric, gas, cable, and telephone/telecommunications utilities, totaled \$1,023,089 for the year, a decrease of .51% from the prior year.

For the year, expenses for governmental activities totaled \$15,111,603. This represents a decrease of \$631,088 over last year.

Business-type activities change in net position was \$1,747,793, which is largely attributable to an increase in billing rates.

**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 \$6,286,345. Of this, \$286,998 is reported in nonspendable –notes receivables, \$1,901,250 is reported as restricted, \$304,988 is reported as committed and the remaining fund balance of \$3,793,109 is unassigned.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**

The general fund reported a decrease in fund balance due to transfers to other funds for the current year.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There had been a planned decrease in budgeted fund balance in the amount of \$62,107 in the general fund. However, the net change in fund balance decreased by \$410,360, resulting in a negative variance of \$348,253 from budgeted as amended over actual. General fund revenues were under budget by \$349,936 and general fund expenditures were under budget by \$1,233,668. Main revenues under budget were property tax and sales tax. Main expenditure categories under budget were general government and public safety.

**CAPITAL ASSETS**

At year-end, the City's governmental activity funds had invested \$19,274,802 in a variety of capital assets and infrastructure (net of accumulated depreciation). Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with depreciation expense of \$1,661,697.

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 year-end:

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

**CITY OF PALESTINE'S CAPITAL ASSETS AT YEAR END**

	Governmental Activities		Business -type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,118,457	\$ 2,118,457	\$ 1,800,468	\$ 1,800,469	\$ 3,918,925	\$ 3,918,926
Buildings	5,488,026	5,488,026	10,052,093	10,052,093	15,540,119	15,540,119
Improvements	10,288,956	9,771,880	-	-	10,288,956	9,771,880
Machinery and equipment	9,565,350	9,248,801	706,010	699,253	10,271,360	9,948,054
Infrastructure	32,029,616	30,234,144	45,687,225	41,714,053	77,716,841	71,948,197
Construction in progress	-	165,190	-	2,954,126	-	3,119,316
Less accumulated depreciation	(40,215,603)	(38,553,906)	(29,072,096)	(27,410,906)	(69,287,699)	(65,964,812)
Net Assets - ending	<u>\$ 19,274,802</u>	<u>\$ 18,472,592</u>	<u>\$ 29,173,700</u>	<u>\$ 29,809,088</u>	<u>\$ 48,448,502</u>	<u>\$ 48,281,680</u>

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**

**LONG-TERM DEBT**

At the end of the current year, the City had total certificates of obligation of \$13,567,000 and \$6,701,452 in revenue bonds outstanding. The City redeemed \$1,445,000 of certificates of obligation and \$532,777 of revenue bonds during the year.

The following table reflects the summary schedule of the City's outstanding debt at year-end:

**CITY OF PALESTINE'S OUTSTANDING DEBT AT YEAR END**

	Governmental Activities		Business -type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Capital leases	\$ 473,329	\$ 492,533	\$ -	\$ -	\$ 473,329	\$ 492,533
Revenue bonds	-	-	6,701,452	7,999,229	6,701,452	7,999,229
Certificates of obligation	10,317,000	8,242,000	3,250,000	3,455,000	13,567,000	11,697,000
<b>Total</b>	<b>\$ 10,790,329</b>	<b>\$ 8,734,533</b>	<b>\$ 9,951,452</b>	<b>\$ 11,454,229</b>	<b>\$ 20,741,781</b>	<b>\$ 20,188,762</b>

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**

Unemployment rates for the Fiscal Year ending 2015 were as follows: the unemployment rate for the United States was 4.9% with the Texas unemployment rate was lower at 4.2%. The Anderson County unemployment rate which historically runs slightly higher than the state average made a turnaround and was set at 4.1% at the end of September 2015. The unemployment is rate .5% lower than the same period in September 2014. Part of the decrease in the unemployment rate is the influx of new businesses. Sanderson Farms, a large poultry operation began operation during this period. New retail businesses such as Hobby Lobby and Tractor Supply had either opened or were gearing up to open at the end of the 2015 fiscal year. Significant on-going employment remains with the large warehouse operations run by Walmart and the State of Texas correctional facilities in the area.

While there has been some uptick in unemployment due to the sudden drop in oil prices, this negative development had limited impact during the 2015 fiscal year period. The City continues to work towards a diverse business base that is less dependent on oil and gas operations in the area. Included are educational opportunities at the new Palestine Campus of UT Tyler where nursing and business classes are taught. These educational sources will continue to provide economic benefits for the foreseeable future.

Tourism also continues to boost the local economy with the Texas State Railroad offering riders new experiences such as lunch and dinner trains and Polar Express programs during the Christmas holiday season. As a response to increased tourism, Hilton Hotels has opened a new Hampton Inn hotel close to restaurants and shopping venues.

Along Loop 256, new convenience stores have been constructed and a Toyota dealership is now in operation. Fast food establishments such as Whataburger and McDonalds have demolished their older facilities and rebuilt new, larger units in their current locations. More upscale dining facilities such as Chili's have been permitted and will join Applebee's and Cotton Patch Café in providing more dining choices for Palestine residents and tourist which will provide new local options previously found only in larger communities such as Athens and Tyler which are almost an hour away.

Housing has been an on-going constraint on growth. To rectify this issue, a new multi-unit apartment complex is slated to be permitted mid-year fiscal year 2016.

**CITY OF PALESTINE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
**September 30, 2015**

**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 Larry Pannell, Assistant City Manager/CFO, 504 N. Queen, Palestine, TX, 75801, telephone 903.731.8439, or email [findir@palestine-tx.org](mailto:findir@palestine-tx.org).



***BASIC FINANCIAL STATEMENT***

# CITY OF PALESTINE, TEXAS

## STATEMENT OF NET POSITION

September 30, 2015

	Primary Government		Total	Component
	Governmental Activities	Business-type Activities		Unit PEDC
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 2,348,995	\$ 2,649,954	\$ 4,998,949	\$ 1,749,536
Receivable (net of allowance of doubtful accounts)	1,913,744	1,336,153	3,249,897	170,674
Note receivable, current portion	145,597	-	145,597	-
Internal Balances	63,865	(63,865)	-	-
Total Current Assets	4,472,201	3,922,242	8,394,443	1,920,210
Noncurrent Assets				
Restricted Assets				
Cash and cash equivalents	2,807,468	3,698,987	6,506,455	-
Receivable (net of allowance of doubtful accounts)	545,025	-	545,025	-
Note receivable, less current portion	141,401	-	141,401	-
Capital Assets :				
Nondepreciable	2,118,457	1,800,468	3,918,925	948,602
Depreciable, net	17,156,345	27,373,232	44,529,577	2,766,381
Total Noncurrent Assets	22,768,696	32,872,687	55,641,383	3,714,983
Total Assets	27,240,897	36,794,929	64,035,826	5,635,193
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Pension contributions subsequent to the measurement date	1,034,925	211,973	1,246,898	
Pension - investment experience	271,730	55,656	327,386	-
Total Deferred Outflows of Resources	1,306,655	267,629	1,574,284	-
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	786,612	195,041	981,653	2,607
Accrued interest payable	41,593	38,441	80,034	11,997
Water meter deposits - Refundable	-	290,148	290,148	-
Non-current Liabilities:				
Due within a year	1,801,058	1,005,356	2,806,414	355,000
Due in more than a year	16,797,505	10,335,994	27,133,499	2,720,000
Total Liabilities	19,426,768	11,864,980	31,291,748	3,089,604
<b>DEFERRED INFLOW OF RESOURCES</b>				
Pension - economic experience	183,047	37,491	220,538	-
Total Liabilities and Deferred Inflows of Resources	19,609,815	11,902,471	31,512,286	3,089,604
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	8,484,473	21,588,418	30,072,891	639,983
Restricted For:				
Debt Service	554,928	1,192,779	1,747,707	-
Capital Projects	278,134	-	278,134	-
Public Safety	74,938	-	74,938	-
Economic Development	980,288	-	980,288	-
Other purposes	12,962	-	12,962	-
Unrestricted	(1,447,986)	2,378,890	930,904	1,905,606
Total Net Position	\$ 8,937,737	\$ 25,160,087	\$ 34,097,824	\$ 2,545,589

See the accompanying Notes to Financial Statements.

# CITY OF PALESTINE, TEXAS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government				
Governmental Activities				
General Government	\$ 1,490,998	\$ -	\$ -	\$ -
Public Safety	7,212,271	703,375	88,141	63,743
Community Services	3,461,113	91,970	691,391	812,773
Community Development	2,598,872	96,400	-	-
Interest expense on long term debt	348,349	-	-	-
Total Governmental Activities	15,111,603	891,745	779,532	876,516
Business-type Activities				
Water and Wastewater fund	5,817,415	7,613,860	-	-
Sanitation	2,871,842	3,600,036	-	-
Retail	508,108	585,873	-	-
Total Business-type Activities	9,197,365	11,799,769	-	-
Total Primary Government	\$ 24,308,968	\$ 12,691,514	\$ 779,532	\$ 876,516
Component Unit				
PEDC	\$ 638,296	-	-	-

General Revenues:

- Property Taxes
- Franchise Taxes
- Sales and Use Taxes
- Investment Earnings
- Gain (loss) on sale of assets
- Other income

Transfers

Total General Revenues and Transfers

Change in Net Position

- Net Position, beginning
- Prior Period Adjustment
- 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
\$ (1,490,998)	\$ -	\$ (1,490,998)	\$ -
(6,357,012)	-	(6,357,012)	-
(1,864,979)	-	(1,864,979)	-
(2,502,472)	-	(2,502,472)	-
(348,349)	-	(348,349)	-
<u>(12,563,810)</u>	<u>-</u>	<u>(12,563,810)</u>	<u>-</u>
-	1,796,445	1,796,445	-
-	728,194	728,194	-
-	77,765	77,765	-
<u>-</u>	<u>2,602,404</u>	<u>2,602,404</u>	<u>-</u>
<u>(12,563,810)</u>	<u>2,602,404</u>	<u>(9,961,406)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(638,296)</u>
6,043,894	-	6,043,894	-
1,023,089	-	1,023,089	-
5,899,830	-	5,899,830	1,049,009
19,336	3,118	22,454	1,531
102,283	-	102,283	-
180,662	-	180,662	317,783
857,729	(857,729)	-	-
<u>14,126,823</u>	<u>(854,611)</u>	<u>13,272,212</u>	<u>1,368,323</u>
1,563,013	1,747,793	3,310,806	730,027
12,536,228	25,262,239	37,798,467	1,898,054
(5,161,504)	(1,849,945)	(7,011,449)	(82,492)
<u>\$ 8,937,737</u>	<u>\$ 25,160,087</u>	<u>\$ 34,097,824</u>	<u>\$ 2,545,589</u>

# CITY OF PALESTINE, TEXAS

## BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,296,124	\$ 201,991	\$ 1,498,115
Restricted Cash and cash equivalents	-	2,807,468	2,807,468
Receivables, net	1,895,163	7,819	1,902,982
Restricted Receivables	-	545,025	545,025
Due from other funds	162,210	167,570	329,780
Notes Receivable	286,998	-	286,998
Total Assets	\$ 3,640,495	\$ 3,729,873	\$ 7,370,368
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accrued Liabilities	\$ 374,226	\$ 35,261	\$ 409,487
Due to other funds	-	104,615	104,615
Total Liabilities	374,226	139,876	514,102
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	251,041	48,134	299,175
Unavailable revenue - fines	234,523	36,223	270,746
Total Liabilities	485,564	84,357	569,921
 <b>Fund balances:</b>			
<b>Nonspendable:</b>			
Notes receivables	286,998	-	286,998
<b>Restricted for:</b>			
Economic development	-	980,288	980,288
Debt service	-	554,928	554,928
Capital projects	-	278,134	278,134
Public safety	-	74,938	74,938
Other purposes	-	12,962	12,962
<b>Committed for:</b>			
Community forest	-	56,552	56,552
Airport	-	50,876	50,876
Cemetery	-	197,560	197,560
<b>Unassigned</b>	2,493,707	1,299,402	3,793,109
Total Fund balances	2,780,705	3,505,640	6,286,345
Total Liabilities and Fund Balances	\$ 3,640,495	\$ 3,729,873	\$ 7,370,368

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, 2015**

Total fund balances - governmental funds balance sheet	\$	6,286,345
<p>Amounts reported for governmental activities in the statement of net position (SNP) are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.</p>		
Capital assets, non-depreciable		2,118,457
Capital assets, depreciable		15,967,327
<p>Deferred outflow of resources that are not available to pay for current period expenditures and, therefore, are deferred in the funds.</p>		
		1,876,576
<p>Deferred inflows of resources that are not due and payable in the current period and, therefore, are not reportable in the funds.</p>		
		(183,047)
<p>The assets and liabilities of the internal service funds are included in governmental activities in the SNA.</p>		
		1,122,835
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Accrued liabilities		(125,523)
Noncurrent liabilities due in one year		(1,597,601)
Noncurrent liabilities due in more than one year		(16,527,632)
		(16,527,632)
Net position of governmental activities - statement of net assets	\$	8,937,737

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, 2015**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>			
Taxes	\$11,586,161	\$ 1,429,143	\$13,015,304
Licenses, permits and fees	96,400	-	96,400
Intergovernmental	481,997	1,174,051	1,656,048
Charges for services	46,830	45,140	91,970
Fines and Forfeitures	426,724	16,567	443,291
Investment	17,256	1,490	18,746
Other revenues	166,263	116,682	282,945
Total revenues	<u>12,821,631</u>	<u>2,783,073</u>	<u>15,604,704</u>
<b>Expenditures:</b>			
General government	1,470,766	-	1,470,766
Public Safety	6,957,113	53,209	7,010,322
Community Services	3,250,329	490,447	3,740,776
Community Development	1,019,225	2,259,162	3,278,387
<b>Debt service:</b>			
Principal	-	475,000	475,000
Interest and fiscal charges	-	327,422	327,422
Total expenditures	<u>12,697,433</u>	<u>3,605,240</u>	<u>16,302,673</u>
Excess (deficiency) of revenues over (under) expenditures	<u>124,198</u>	<u>(822,167)</u>	<u>(697,969)</u>
<b>Other financing sources (uses):</b>			
Long-term debt proceeds	-	2,550,000	2,550,000
Transfers in	890,987	577,008	1,467,995
Transfers out	<u>(1,425,545)</u>	<u>(23,954)</u>	<u>(1,449,499)</u>
Total other financing sources (uses)	<u>(534,558)</u>	<u>3,103,054</u>	<u>2,568,496</u>
Net change in fund balances	(410,360)	2,280,887	1,870,527
Fund balances, October 1	<u>3,191,065</u>	<u>1,224,753</u>	<u>4,415,818</u>
Fund balances, September 30	<u>\$ 2,780,705</u>	<u>\$ 3,505,640</u>	<u>\$ 6,286,345</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, 2015**

Net change in fund balances - total governmental funds	\$ 1,870,527
<p>Amounts reported for governmental activities in the statement of activities (SOA) are different because:</p>	
<p>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.</p>	
Capital outlay	2,314,441
Depreciation	(1,370,564)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds</p>	
	222,257
<p>The issuance of long-term debt (e.g., bonds, certificates of obligation) 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 assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.</p>	
Principal expenditures	475,000
Interest expense	(2,797)
Debt Proceeds	(2,550,000)
<p>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.</p>	
	195,712
<p>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.</p>	
	446,450
Change in net position of governmental activities - statement of net position	\$ 1,601,026

See the accompanying Notes to Financial Statements.



**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2015**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Water & Wastewater	Sanitation	Retail	Total	Internal Service Funds
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 2,048,850	\$ -	\$ 601,104	\$ 2,649,954	\$ 850,879
Receivable (net)	958,024	367,179	10,950	1,336,153	10,762
Due from other funds	667,522	-	13,292	680,814	34,555
<b>Total Current Assets</b>	<b>3,674,396</b>	<b>367,179</b>	<b>625,346</b>	<b>4,666,921</b>	<b>896,196</b>
<b>Noncurrent Assets:</b>					
Cash and cash equivalents (restricted)	3,698,987	-	-	3,698,987	-
<b>Capital Assets</b>					
Nondepreciable	46,841	20,281	1,733,346	1,800,468	-
Depreciable, net	25,664,377	-	1,708,855	27,373,232	1,189,017
<b>Total Capital Assets</b>	<b>25,711,218</b>	<b>20,281</b>	<b>3,442,201</b>	<b>29,173,700</b>	<b>1,189,017</b>
<b>(Net of Accumulated Depreciation)</b>	<b>29,410,205</b>	<b>20,281</b>	<b>3,442,201</b>	<b>32,872,687</b>	<b>1,189,017</b>
<b>Total Noncurrent Assets</b>	<b>33,084,601</b>	<b>387,460</b>	<b>4,067,547</b>	<b>37,539,608</b>	<b>2,085,213</b>
<b>Total assets</b>					
<b>Deferred Outflows of Resources</b>					
Pension contributions subsequent to the measurement date	190,775	10,599	10,599	211,973	
Pension - investment experience	50,090	2,783	2,783	55,656	-
<b>Total deferred outflows of resources</b>	<b>240,865</b>	<b>13,382</b>	<b>13,382</b>	<b>267,629</b>	<b>-</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	120,013	22,621	52,407	195,041	293,193
Due to other funds	77,157	667,522	-	744,679	195,855
Accrued interest payable	37,365	-	1,076	38,441	-
Water meter deposits - refundable	290,148	-	-	290,148	-
Long-term debt - due within one year	897,982	3,451	103,923	1,005,356	203,457
<b>Total current liabilities</b>	<b>1,422,665</b>	<b>693,594</b>	<b>157,406</b>	<b>2,273,665</b>	<b>692,505</b>
<b>Noncurrent liabilities</b>					
Long-term debt - due in more than one year	9,771,820	63,069	501,105	10,335,994	269,873
<b>Total noncurrent liabilities</b>	<b>9,771,820</b>	<b>63,069</b>	<b>501,105</b>	<b>10,335,994</b>	<b>269,873</b>
<b>Deferred Inflows of Resources</b>					
Pension - economic experience	33,741	1,875	1,875	37,491	-
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>11,228,226</b>	<b>758,538</b>	<b>660,386</b>	<b>12,647,150</b>	<b>962,378</b>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	18,657,388	20,281	2,910,749	21,588,418	715,687
Restricted for Debt Service	1,192,779	-	-	1,192,779	-
Unrestricted	2,247,073	(377,977)	509,794	2,378,890	407,148
<b>Total net position</b>	<b>\$ 22,097,240</b>	<b>\$ (357,696)</b>	<b>\$ 3,420,543</b>	<b>\$ 25,160,087</b>	<b>\$ 1,122,835</b>

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, 2015**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Water & Wastewater	Sanitation	Retail	Total	Internal Service Funds
<b>OPERATING REVENUES:</b>					
Charges For Services	\$ 7,547,770	\$ 3,600,036	\$ 585,873	\$ 11,733,679	\$ 2,623,528
Other revenues	66,090	-	-	66,090	-
<b>Total Operating Revenues</b>	<b>7,613,860</b>	<b>3,600,036</b>	<b>585,873</b>	<b>11,799,769</b>	<b>2,623,528</b>
<b>OPERATING EXPENSES:</b>					
Cost of sales and services	2,529,534	2,785,111	275,862	5,590,507	2,707,637
Personnel	1,497,289	86,731	77,291	1,661,311	-
Depreciation	1,532,133	-	129,057	1,661,190	291,133
<b>Total Operating Expenses</b>	<b>5,558,956</b>	<b>2,871,842</b>	<b>482,210</b>	<b>8,913,008</b>	<b>2,998,770</b>
<b>Operating Income (Loss)</b>	<b>2,054,904</b>	<b>728,194</b>	<b>103,663</b>	<b>2,886,761</b>	<b>(375,242)</b>
<b>NON-OPERATING REVENUES</b>					
<b>(EXPENSES):</b>					
Investment revenue	2,783	108	227	3,118	590
Interest expense	(258,459)	-	(25,898)	(284,357)	(18,130)
<b>Total Non-operating Revenues</b>	<b>2,783</b>	<b>108</b>	<b>227</b>	<b>3,118</b>	<b>590</b>
<b>(Expenses)</b>	<b>(255,676)</b>	<b>108</b>	<b>(25,671)</b>	<b>(281,239)</b>	<b>(17,540)</b>
<b>Income (Loss) before</b>					
<b>Contributions and Transfers</b>	<b>1,799,228</b>	<b>728,302</b>	<b>77,992</b>	<b>2,605,522</b>	<b>(392,782)</b>
Transfer in	248,036	-	78,000	326,036	936,974
Transfers (out)	(842,412)	(296,113)	(45,240)	(1,183,765)	(97,742)
<b>Change in net position</b>	<b>1,204,852</b>	<b>432,189</b>	<b>110,752</b>	<b>1,747,793</b>	<b>446,450</b>
Net position, October 1	22,618,390	(737,026)	3,380,875	25,262,239	676,385
Prior Period Adjustment	(1,726,002)	(52,859)	(71,084)	(1,849,945)	-
<b>Net position, September 30</b>	<b>\$ 22,097,240</b>	<b>\$ (357,696)</b>	<b>\$ 3,420,543</b>	<b>\$ 25,160,087</b>	<b>\$ 1,122,835</b>

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, 2015

	Business-Type Activities - Enterprise Funds				Governmental
	Water & Wastewater	Sanitation	Retail	Total	Activities Internal Service Funds
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 7,165,960	\$ 3,533,327	\$ 580,273	\$ 11,279,560	\$ 2,612,766
Payments to suppliers	(2,474,636)	(2,785,111)	(275,862)	(5,535,609)	(2,690,107)
Payments to employees	(1,543,110)	(75,763)	(84,011)	(1,702,884)	-
Internal Activity - payments from other funds	876,346	-	-	876,346	363,811
Internal Activity - payments to other funds	(914,746)	(376,448)	-	(1,291,194)	(583,929)
<b>Net Cash Provided (Used) by Operating Activities</b>	3,109,814	296,005	220,400	3,626,219	(297,459)
<b>Cash Flows from Noncapital</b>					
<b>Financing Activities</b>					
Transfer from other funds	248,036	-	78,000	326,036	839,232
Transfer to other funds	(842,412)	(296,113)	(45,240)	(1,183,765)	-
<b>Net Cash Provided (Used) by Noncapital</b>					
<b>Financing Activities</b>	(594,376)	(296,113)	32,760	(857,729)	839,232
<b>Cash Flows from Capital and Related</b>					
<b>Financing Activities</b>					
Acquisition and construction of capital assets	(1,031,977)	-	-	(1,031,977)	(149,468)
Proceeds from capital debt	-	-	-	-	229,072
Principal paid on capital debt	(1,415,000)	-	(87,777)	(1,502,777)	(248,279)
Interest paid on capital debt	(262,860)	-	(26,075)	(288,935)	(18,774)
<b>Net Cash Provided (Used) by Capital and</b>					
<b>Related Financing Activities</b>	(2,709,837)	-	(113,852)	(2,823,689)	(187,449)
<b>Cash Flows from Investing Activities</b>					
Interest received	2,783	108	227	3,118	590
<b>Net Cash Provided by Investing Activities</b>	2,783	108	227	3,118	590
<b>Net Increase (Decrease) in Cash</b>					
<b>and Cash Equivalents</b>	(191,616)	-	139,535	(52,081)	354,914
Beginning cash and cash equivalents	5,939,453	-	461,569	6,401,022	495,965
<b>Ending Cash and Cash Equivalents</b>	\$ 5,747,837	\$ -	\$ 601,104	\$ 6,348,941	\$ 850,879
<b>Ending Cash and Cash Equivalents</b>					
Unrestricted cash and cash equivalents	2,048,850	-	601,104	2,649,954	850,879
Restricted cash and cash equivalents	3,698,987	-	-	3,698,987	-
	\$ 5,747,837	\$ -	\$ 601,104	\$ 6,348,941	\$ 850,879

See the accompanying Notes to the Financial Statements.

# CITY OF PALESTINE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2015

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service
	Water & Wastewater	Sanitation	Retail	Total	Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
<b>Operating income (loss)</b>	\$ 2,061,911	\$ 728,583	\$ 104,052	\$ 2,894,546	\$ (375,242)
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>					
Depreciation	1,532,133	-	129,057	1,661,190	291,133
Changes in Operating Assets, Liabilities, and Deferred Inflows and Outflows:					
(Increase) Decrease in Current Assets and Deferred Outflows					
Accounts receivable	(454,076)	(66,709)	(5,600)	(526,385)	(10,762)
Inventory	-	-	-	-	-
Due from other funds	876,346	-	(1)	876,345	-
Deferred Outflows	(1,993)	(111)	(111)	(2,215)	-
Increase (Decrease) in Current Liabilities and Deferred Inflows					
Due to other funds	(914,746)	(376,448)	-	(1,291,194)	(220,118)
Deferred Inflows	33,741	1,875	1,875	37,491	-
Accounts payable and accrued liabilities	(23,502)	8,815	(8,872)	(23,559)	17,530
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,109,814</b>	<b>\$ 296,005</b>	<b>\$ 220,400</b>	<b>\$ 3,626,219</b>	<b>\$ (297,459)</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>					
Borrowing under capital lease					
Total noncash investing, capital and financing activities:	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See the accompanying Notes to the Financial Statements.

# CITY OF PALESTINE, TEXAS

## NOTES TO FINANCIAL STATEMENTS

September 30, 2015

### 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; leisure services; 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, 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, 2015

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

#### A. Reporting Entity, continued

Palestine Economic Development Corporation, Inc. (the Corporation) has been included in the reporting entity as a discretely presented component unit. The Corporation is a governmental entity that promotes the creation of new and expanded industry and manufacturing activity within the City. The Corporation'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 the Corporation will be transferred to the City. Separate financial statements of the Corporation 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: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - 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, 2015**

**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.

**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 nonmajor 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

# CITY OF PALESTINE, TEXAS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

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

Accounting Standards Board (GASB) 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.

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 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.

Fiduciary Funds, nor component units that are fiduciary in nature, are not included in government-wide financial statements.

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

The government-wide Statements of Net Position and Statements of Activities 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. Proprietary fund equity consists of net position. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units 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 fund and component units. 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.



# CITY OF PALESTINE, TEXAS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

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

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.

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.

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

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

##### 1. Deposits and Investments

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. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and cash equivalents."

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool and TexSTAR, are reported using the pools' share price.

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

##### 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."

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

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

**2. Receivables and Payables, continued**

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.

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</u>
Buildings	20 to 50 years
Improvements	5 to 50 years
Equipment	5 to 10 years
Water and sewer system	20 to 30 years
Infrastructure	40 to 50 years

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

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

**5. 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.

**6. 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, pension 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.

**7. 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 one item that qualifies for reporting in this category. It is the deferred charge on pension reported in the government-wide statement of net position and the proprietary funds statement of net position. This the difference between projected and actual investment earnings.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

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

**7. Deferred Outflows/Inflows of Resources, continued**

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 two types of items, one of which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category.

Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, fines, and permits. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is deferred pension resulting from the difference in expected and actual economic experience.

**8. 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 requires that fund balance shall be maintained at a level of 15 percent of estimated annual operating expenditures for the General Fund and at 25 percent of estimated annual operating expenses in the Utility Fund and Solid Waste Fund.

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.

**9. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the City considers all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

# CITY OF PALESTINE, TEXAS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

#### 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.

### F. Pensions

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

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 and Civic Center, Airport, Debt Service and Cemetery. The Special Revenue and Debt Service 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.

#### A. Deficit Fund Balance/Net Position

For the year-ended, deficit fund balance/net position was reported in the following funds:

Fund	Deficit
Home Grant	\$ 960
Sanitation	\$ 360,604
Health Insurance	\$ 205,656
Central Warehouse	\$ 24,807

#### B. Expenditures Over Appropriations

The city general fund transfers were over budget by \$1,231,985. The Debt service nonmajor funds reported expenditure category in excess of appropriations of \$589.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of year-end, the City had the following investments:

<u>Investment Type</u>	<u>Weighted Average</u>		<u>Credit Risk</u>
	<u>Fair Value</u>	<u>Maturity (Years)</u>	
TexPool	\$949,713	.15	AAAm
TexSTAR	\$1,823,096	.14	AAAm

*Custodial credit risk - deposits.* 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 year-end, market values of pledged securities and FDIC insurance exceeded bank balances.

*Credit risk.* As of September 30, 2015, the City's investments in TexPool and 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.* The City has no long-term investments and has only invested in TexPool and TexSTAR. The strategy protects City's investments from market valuation and from unanticipated rate movements.

*Concentration of Credit Risk.* The City attempts to avoid over-investment in local government pools and matches a portion of its investments with anticipated cash flow requirements.

More specifically, the U.S. agencies held by the City as of September 30, 2015, consist of bonds issued by the Federal National Mortgage Association. These investments were rated not less than AAA by Moody's and Standard & Poor's. In addition to limiting the City's investments to those specifically authorized by policy, the City also protects against credit risk by diversifying their portfolio. The maximum allowable portion of the City's portfolio invested in state and local government securities is 50 percent of the total portfolio, with exposure to any one issuer of less than ten percent of the total portfolio at the time of purchase.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Standard & Poor's rates TexPool, AAAm. Weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts, for review.

**TexSTAR**

The Texas Short Term Asset Reserve Fund ("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.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2015

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

**A. Deposits and Investments, continued**

TexPool and TexSTAR operate 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 TexPool and TexSTAR are the same as the value of TexPool and TexSTAR shares.

**B. Note Receivables**

The City loaned \$500,000 to the Texas State Railroad Authority in December 2007. The interest rate is 2%. The Authority will pay interest and principal over a four-year period concluding on December 1, 2018. The balance of note at September 30, 2015 is \$286,998.

**C. Receivables**

The following comprise receivable balances at year-end:

	General	Internal Service Fund	Nonmajor Governmental	Water & Wastewater	Sanitation	Retail
Receivables						
Ad valorem taxes	\$ 514,632	\$ -	\$ 80,924	\$ -	\$ -	\$ -
Other Taxes	1,356,048	-	45,229	-	-	-
Other	3,403	-	447,949	-	-	-
Accounts	<u>1,022,151</u>	<u>10,762</u>	<u>7,819</u>	<u>1,116,676</u>	<u>568,520</u>	<u>10,950</u>
Gross receivables	2,896,234	10,762	581,921	1,116,676	568,520	10,950
Less: allowance for uncollectible	<u>1,001,071</u>	<u>-</u>	<u>29,077</u>	<u>158,652</u>	<u>201,341</u>	<u>-</u>
Net total receivables	<u>\$ 1,895,163</u>	<u>\$ 10,762</u>	<u>\$ 552,844</u>	<u>\$ 958,024</u>	<u>\$367,179</u>	<u>\$ 10,950</u>

**D. Operating Leases**

Operating Leases -Lessee

The City has entered into thirteen operating leases for various equipment. These leases are considered to be operating for accounting purposes. Lease expenditures for the year totaled \$36,873. Monthly rental amounts range from \$66 to \$539. The terms of leases range from 48 months to 60 months.

Operating Leases -Lessor

The City has leasing arrangements with nine tenants in the City owned mall. The term of lease arrangements range from 12 months to 120 months. Monthly rental amounts range from \$575 to \$15,000.

Future minimum rentals on non-cancelable leases are as follows:

Year	Amount
2016	477,494
2017	289,360
2018	253,363
2019	180,000
2020	<u>180,000</u>
Total	<u>\$1,380,217</u>

Cost of mall, excluding city library in mall, \$3,995,124. Total amount of accumulated depreciation on mall at year-end was \$552,923.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2015

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

**E. Capital Assets**

A summary of changes in capital assets for the year-end were as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Government activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,118,457		\$ -	\$ 2,118,457
Construction in progress	165,190		(165,190)	-
Total capital assets not being depreciated	2,283,647	-	(165,190)	2,118,457
Capital assets, being depreciated:				
Buildings	5,488,026	-		5,488,026
Improvements	9,771,880	517,076		10,288,956
Machinery and equipment	9,248,801	316,549		9,565,350
Infrastructure	30,234,144	1,795,472		32,029,616
Total capital assets being depreciated	54,742,851	2,629,097	-	57,371,948
Less accumulated depreciation:				
Buildings	(4,140,160)	(68,966)		(4,209,126)
Improvements	(6,660,541)	(128,085)		(6,788,626)
Machinery and equipment	(7,047,571)	(479,228)		(7,526,799)
Infrastructure	(20,705,634)	(985,418)		(21,691,052)
Total accumulated depreciation	(38,553,906)	(1,661,697)	-	(40,215,603)
Total capital assets being depreciated, net	16,188,945	967,400	-	17,156,345
Governmental activities capital assets, net	\$18,472,592	\$ 967,400	\$ (165,190)	\$ 19,274,802
Governmental activities capital assets, net				\$ 19,274,802
Less associated debt				(10,790,329)
<b>Invested in Capital Assets, Net of Related debt</b>				<b>\$ 8,484,473</b>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 67,440
Public Safety	257,192
Community Development	950,766
Community Service	386,299
Total depreciation expenses - governmental activities	\$ 1,661,697

The PEDC reported land of \$948,602 and depreciable capital assets net of accumulated depreciation of \$2,766,381 at year-end.



**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2015

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

**E. Capital Assets, continued**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,800,468	\$ -	\$ -	\$ 1,800,468
Construction in progress	2,954,126	-	(2,954,126)	-
Total capital assets not being depreciated	4,754,594	-	(2,954,126)	1,800,468
Capital assets, being depreciated:				
Buildings	10,052,093	-	-	10,052,093
Machinery and equipment	699,253	12,933	(6,176)	706,010
Infrastructure	41,714,054	3,973,171	-	45,687,225
Total capital assets being depreciated	52,465,400	3,986,104	(6,176)	56,445,328
Less accumulated depreciation:				
Buildings	(6,973,129)	(271,236)	-	(7,244,365)
Machinery and equipment	(147,190)	(23,253)	-	(170,443)
Infrastructure	(20,290,587)	(1,366,701)	-	(21,657,288)
Total accumulated depreciation	(27,410,906)	(1,661,190)	-	(29,072,096)
Total capital assets being depreciated, net	25,054,494	2,324,914	(6,176)	27,373,232
Business-type activities capital assets, net	\$29,809,088	\$ 2,324,914	\$(2,960,302)	\$ 29,173,700
Business-type activities, capital assets, net				\$ 29,173,700
Less associated debt				(9,951,452)
Unspent proceeds of capital related debt				2,366,170
<b>Invested in Capital Assets, Net of</b>				
<b>Related debt</b>				<b>\$ 21,588,418</b>
 Business-type activities:				
Water and wastewater				\$ 1,532,133
Retail				129,057
Total depreciation expenses - business-type activities				\$ 1,661,190

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**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-ended. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Government activities:					
Certificates of obligation	\$ 8,242,000	\$ 2,550,000	\$ 475,000	\$ 10,317,000 *	\$ 475,000
Capital leases	492,535	229,073	248,279	473,329 *	203,457
Compensated absences	1,337,854	953,565	1,134,101	1,157,318	1,122,601
Net Pension Liability	6,223,629	1,018,328	1,093,846	6,148,111	-
Net OPEB obligation	437,559	91,639	26,393	502,805	-
Governmental activities					
Long - term liabilities	<u>\$ 16,733,577</u>	<u>\$ 4,842,605</u>	<u>\$2,977,619</u>	<u>\$ 18,598,563</u>	<u>\$ 1,801,058</u>
Long-term debt due in more than a year				<u>\$ 16,797,505</u>	
* Debt associated with capital assets				<u>\$ 10,790,329</u>	
Business type activities					
Revenue Bonds	\$ 7,234,229	\$ -	\$ 532,777	\$ 6,701,452 *	\$ 623,629
Certificate of obligation	4,220,000	-	970,000	3,250,000 *	255,000
Net Pension Liability	1,274,719	208,573	224,040	1,259,252	-
Compensated absences	172,202	122,738	164,294	130,646	126,727
Business-type activities					
Long - term liabilities	<u>\$ 12,901,150</u>	<u>\$ 331,311</u>	<u>\$1,891,111</u>	<u>\$ 11,341,350</u>	<u>\$ 1,005,356</u>
Long-term debt due in more than a year				<u>\$ 10,335,994</u>	
* Debt associated with capital assets				<u>\$ 9,951,452</u>	
PEDC					
Notes	\$ 3,420,000	\$ -	\$ 345,000	\$ 3,075,000	\$ 355,000
	<u>\$ 3,420,000</u>	<u>\$ -</u>	<u>\$ 345,000</u>	<u>\$ 3,075,000</u>	<u>\$ 355,000</u>
Long-term debt due in more than a year				<u>\$ 2,720,000</u>	

The liabilities listed above for net OPEB and compensated absences will be liquidated by the City's General and Tourism/Civic Center Fund.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2015

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

**F. Long – Term Debt, continued**

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.

The PEDC notes payable have outstanding balances of \$735,000 and \$2,340,000 and interest rates of 1.70% and 3.35%, respectively.

Long-term debt was comprised of following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>Governmental Activities</b>		
<b>Certificate of obligation</b>		
Series 2006	4.100%	\$ 240,000
Series 2008	3.874%	1,490,000
Series 2010A Taxable	6.75%	1,875,000
Series 2010 B	4.125%	3,260,000
Series 2010 A Non taxable	5.25%	902,000
Series 2014	1.75%	2,550,000
<b>Total Governmental Activities Long-term Debt</b>		<b><u>\$ 10,317,000</u></b>
<b>Business-Type Activities</b>		
Water and sewer, series 2003	.035-3.10%	2,195,000
Water and sewer, series 2006	2.20-4.20%	500,000
Water and sewer, series 2007	2.40-4.60%	3,025,000
Water and sewer, series 2009	.015-4.125%	450,000
Lease Revenue - Taxable	6.50%	531,452
Certificate of obligation 2011 refunding	2%	365,000
General Obligation 2012 refunding	1.58%	455,000
Certificate of obligation 2013 refunding	2.15%	2,430,000
<b>Total Business-Type Activities Long-term Debt</b>		<b><u>\$ 9,951,452</u></b>

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

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

**F. Long – Term Debt, continued**

Annual debt service requirements to maturity for bonds, notes, and capital leases are as follows:

Year Ending September 30.	Governmental Activities		Business-type Activities			
	Certificates of Obligation		Revenue Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	890,000	366,768	623,629	189,977	255,000	66,477
2017	703,000	308,966	639,945	172,811	265,000	61,335
2018	720,000	289,151	661,620	154,723	280,000	55,925
2019	748,000	268,884	688,759	135,495	300,000	49,796
2020	1,083,000	252,247	827,499	114,963	210,000	43,248
2021-2025	3,207,000	918,969	2,540,000	286,838	1,155,000	145,603
2026-2030	2,966,000	331,850	720,000	38,830	785,000	26,069
	<u>\$ 10,317,000</u>	<u>\$ 2,736,835</u>	<u>\$ 6,701,452</u>	<u>\$ 1,093,637</u>	<u>\$3,250,000</u>	<u>\$ 448,453</u>

Year Ending September 30.	PEDC	
	Notes	
	Principal	Interest
2016	355,000	90,885
2017	360,000	81,715
2018	375,000	72,378
2019	380,000	62,618
2020	280,000	52,695
2021-2025	1,195,000	144,386
2026	130,000	4,355
	<u>\$ 3,075,000</u>	<u>\$ 509,032</u>

Year Ending September 30.	Governmental Activities	
	Capital Leases	
	Principal	Interest
2016	166,156	15,128
2017	171,846	10,422
2018	87,156	4,484
2019	48,171	15,161
	<u>\$ 473,329</u>	<u>\$ 45,195</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt. Capital assets acquired under current capital lease obligations were a total of \$825,792 less accumulated depreciation of \$276,016, net \$549,776. The capital leases are for equipment and the amortization of equipment is included with depreciation expense.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2015**

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

**G. Interfund Transactions**

The compositions of interfund balances as of year- end were as follows:

	Payable				
	Total	Nonmajor Governmental	Internal Service	Water & Wastewater	Sanitation
Receivable					
General	\$ 162,210	\$ 910	\$ 161,300	\$ -	\$ -
Nonmajor governmental	167,570	90,413	-	77,157	-
Internal Service	34,555	-	34,555	-	-
Retail	13,292	13,292			
Water & Wastewater	<u>667,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>667,522</u>
Total	<u>\$ 1,045,149</u>	<u>\$ 104,615</u>	<u>\$ 195,855</u>	<u>\$ 77,157</u>	<u>\$ 667,522</u>

	Transfers in					
	Total	General	Nonmajor Governmental	Water & Wastewater	Retail	Internal Service
Transfer out						
General	\$ 1,425,545	\$ -	\$ 331,769	\$ 178,125	\$ 46,419	\$ 869,232
Nonmajor governmental	23,954	-	-	-	23,954	-
Water & Wastewater	842,411	597,172	245,239	-	-	-
Sanitation	296,113	226,202	-	69,911	-	-
Retail	45,240	45,240	-	-	-	-
Internal service	<u>97,742</u>	<u>22,373</u>	<u>-</u>	<u>-</u>	<u>7,627</u>	<u>67,742</u>
Total transfers	<u>\$ 2,731,005</u>	<u>\$ 890,987</u>	<u>\$ 577,008</u>	<u>\$ 248,036</u>	<u>\$ 78,000</u>	<u>\$ 936,974</u>

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. Fund Equity**

The City's restricted fund balance and net position for other purposes are for the following:

Library	\$ 12,918
Community beautification	<u>44</u>
Total restricted for other purposes	<u>\$ 12,962</u>

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION**

**A. 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 past three years.

The City established a limited risk management program for health benefits 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 past two years are as follows:

	9/30/2015	9/30/2014
Beginning claims payable	\$ 262,719	\$ 267,140
Claims incurred	1,782,648	1,402,436
Claims incurred but not reported	263,174	249,969
Claims paid	<u>(2,033,493)</u>	<u>(1,656,826)</u>
Ending claims payable	<u>\$ 275,048</u>	<u>\$ 262,719</u>

Claims payable for year- end are estimated based upon prior year actual claims and claims activity at year-end.

**B. 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.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year-end.

# CITY OF PALESTINE, TEXAS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

### IV. OTHER INFORMATION, CONTINUED

#### C. Pension Plans - Texas Municipal Retirement System

##### Plan Description

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

Employee deposit rate	6.00%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service requirement eligibility (expressed as age/yrs of service)	age 60/5 yrs, any age/20 yrs
Updated service credit	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**C. Pension Plans - Texas Municipal Retirement System, continued**

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	141
Inactive employees entitled to but not yet receiving benefits	95
Active employees	162
Total employees receiving benefits	398

Contributions

The contribution rates for City employees in TMRS are 6% of employee gross earnings, and the City matching percentage is 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 12% in each calendar year 2014 and 2015. The City's contributions to TMRS for the fiscal year ended September 30, 2015, were \$1,168,400 and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	3% per year
Overall payroll growth	3% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

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



**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**C. Pension Plans - Texas Municipal Retirement System, continued**

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

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

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

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

**Discount Rate**

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**C. Pension Plans - Texas Municipal Retirement System, continued**

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 39,464,823	\$ 31,966,475	\$ 7,498,348
Changes for the Year:			
Service Cost	938,602	-	938,602
Interest	2,720,857	-	2,720,857
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(303,094)	-	(303,094)
Change of Assumptions	-	-	-
Contributions - Employer	-	1,185,438	(1,185,438)
Contributions - Employee	-	454,154	(454,154)
Net Investment Income	-	1,828,420	(1,828,420)
Benefit Payments, Including Refunds of Employee			-
Contributions	(2,129,464)	(2,129,464)	-
Administrative Expense	-	(19,092)	19,092
Other Changes	-	(1,570)	1,570
Net Changes	1,226,901	1,317,886	(90,985)
Balance at 12/31/2014	<u>\$ 40,691,724</u>	<u>\$ 33,284,361</u>	<u>\$ 7,407,363</u>

Plan fiduciary net position as a percentage of the total pension liability is 81.80%.

The Net Pension Liability as a percentage of the City's covered employee payroll of \$7,569,229 is 97.86%.

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

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	<u>\$ 13,254,527</u>	<u>\$ 7,407,363</u>	<u>\$ 2,661,266</u>

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.tmrs.com](http://www.tmrs.com).

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**C. Pension Plans - Texas Municipal Retirement System, continued**

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

For the year ended September 30, 2015, the City recognized pension expense of \$1,003,338.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 220,538
Changes in Actuarial Assumptions	-	-
Difference Between Projected and Actual Investment Earnings	327,386	-
Contributions Subsequent to the Measurement Date	1,246,898	
Total	\$ 1,574,284	\$ 220,538

\$ 1,232,199 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec. 31	Net deferred outflows (inflows) of resources
2016	\$ (889)
2017	26,961
2018	81,845
Total	\$ 107,917

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**D. Other Post Employment Benefits**

**1. City of Palestine 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.

Funding Policy

The City has elected to finance the OPEB plan on a pay-as-you-go basis. The City contributed \$42,496 to the OPEB plan during the year

Actuarial Information

The contribution requirement has been actuarially determined. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. As of the actuarial valuation date of October 1, 2011, the actuarial value of plan assets is zero dollars, the actuarial accrued liability is \$1,020,665, the total underfunded actuarial liability is \$1,020,665, and the actuarial value of assets as a percentage of the actuarial accrued liability is zero percent. The actuarial determined annual required contribution (ARC) is \$104,891. The components of the ARC consist of the employer's normal cost and the amortization of the underfunded actuarial accrued liabilities. The following is a summary of the actuarial assumptions:

Inflation rate	3%
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level % of payroll
Remaining Amortization Period	30 Years - Closed period
Asset Valuation Method	Not applicable
Investment Rate of Return	Not applicable
Projected Salary Increases	3.0%
Healthcare Cost Trend Rate (Initial/Ultimate)	Initial rate of 8.5% declining to an ultimate rate of 5% in 7 years

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**D. Other Post Employment Benefits, continued**

Three-Year Contribution Information

<u>Year Ending September 30,</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Req. Contrib. (ARC)	\$ 92,606	\$ 104,891	\$ 101,001
Adjustment To ARC	(19,560)	(16,497)	(13,545)
Interest on net OPEB obligation	18,596	15,967	13,347
Contributions Made	(26,393)	(42,496)	(39,149)
Beginning OPEB Obligation	437,556	375,691	314,037
Ending OPEB Obligation	<u>\$ 502,805</u>	<u>\$ 437,556</u>	<u>\$ 375,691</u>

**Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2011	110,048	21,788	19.80%	251,786
9/30/2012	97,244	34,993	35.98%	314,037
9/30/2013	100,803	39,149	38.84%	375,691
9/30/2014	104,361	42,496	40.72%	437,556
9/30/2015	91,642	26,393	28.80%	502,805

The funded status as of October 1, 2014, the most recent valuation date, is as follows:

Actuarial Valuation Date	10/1/2014
Actuarial Valuation of Assets	\$ -
Actuarial Accrued Liability	\$ 717,157
Percentage Funded	0.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 717,157
Annual Coverage Payroll	\$ 7,569,229
UAAL as Percentage of Covered Payroll	9.47%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**D. Other Post Employment Benefits, continued**

**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.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year-ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

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 City's contributions to the TMRS SDBF, for the years-ended September 30, 2015, 2014 and 2013 were \$5,298 \$4,954 and \$5,367, respectively, which equaled the required contribution each year.

**SCHEDULE OF CONTRIBUTION RATES:  
 (RETIREE-only portion of the rate)**

	9/30/15	9/30/14	9/30/13
Annual Req. Contrib. (ARC)	0.07%	0.07%	0.07%
Actual Contributions Made	0.07%	0.07%	0.07%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

**E. Change in Accounting Principles**

Effective October 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.65, *Items Previously Reported as Assets and Liabilities*, Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB No. 68*. Under GASB 65, bond issuance costs which were previously amortized over the life of bond issue are now expensed as incurred. The remaining unamortized balance was written off as a prior period adjustment. GASB No. 68 provides for requirements for defined benefit pension plans, primarily focusing on the recognition of a net pension liability in the statement of net position. GASB 71 provides requirements on accounting and reporting for contributions made to defined benefit plans after the measurement date, primarily focusing on the recognition of a deferred outflow of resources in the statement of net position. The City reported cumulative effect of changes in accounting principles

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*

**September 30, 2015**

**IV. OTHER INFORMATION, CONTINUED**

**E. Change in Accounting Principles, continued**

to recognize its bond issuance cost, net pension liability and related deferred outflows, which reduced unrestricted net position by \$5,161,504 for governmental activities, \$1,849,945 for business-type activities, \$1,726,002 for the water and waste water fund, \$52,859 for sanitation and \$71,084 retail fund. It was not practical to determine amounts of all deferred inflows of resources and deferred outflows of resources related to pensions at October 1, 2014; consequently, beginning balances for deferred inflows of resources and deferred outflows of resources (except for pension contributions made subsequent to the measurement date of the beginning net pension liability) were not reported.

Palestine Economic Development Corporation, Inc. (the Corporation) also adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.65, *Items Previously Reported as Assets and Liabilities*. The Corporation reported cumulative effect of changes in accounting principles to recognize its bond issuance cost of \$82,492.

**F. Subsequent Events**

In February 2016, the PEDC Board along with Council approval issued \$525,000 in new tax notes with interest rate of 3.630% and 10 year term for the purchase of commercial real estate.

***REQUIRED SUPPLEMENTARY INFORMATION***



# CITY OF PALESTINE, TEXAS

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenue:				
Taxes				
Property Taxes	\$ 5,343,067	\$5,343,067	\$ 5,289,200	\$ (53,867)
Business Franchise Taxes	1,032,000	1,032,000	1,023,089	(8,911)
City Sales Taxes	5,496,760	5,496,760	5,273,872	(222,888)
Licenses, Permits and Fees	87,648	87,648	96,400	8,752
Intergovernmental Revenues	426,382	523,754	481,997	(41,757)
Charges For Services	39,380	39,380	46,830	7,450
Fines and Forfeitures	468,869	468,869	426,724	(42,145)
Investment	8,500	8,500	17,256	8,756
Other revenues	231,407	171,589	166,263	(5,326)
Total revenues	13,134,013	13,171,567	12,821,631	(349,936)
Expenditures:				
General Government	1,767,736	1,767,736	1,470,766	296,970
Public Safety	7,399,132	7,586,710	6,957,113	629,597
Community Services	3,399,649	3,397,975	3,250,329	147,646
Community Development	1,264,523	1,178,680	1,019,225	159,455
Total expenditures	13,831,040	13,931,101	12,697,433	1,233,668
Excess (deficiency) of revenues over (under) expenditures	(697,027)	(759,534)	124,198	883,732
Other financing sources (uses):				
Operating transfers in	868,614	868,614	890,987	22,373
Operating transfers out	(171,187)	(171,187)	(1,425,545)	(1,254,358)
Total other financing sources (uses)	697,427	697,427	(534,558)	(1,231,985)
Net change in fund balance	400	(62,107)	(410,360)	\$ (348,253)
Fund balances, October 1			3,191,065	
Fund balances, September 30			\$ 2,780,705	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with general accepted accounting principles (GAAP).
2. \*Expenditures exceeded appropriations at the legal level of control.

## CITY OF PALESTINE, TEXAS

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For Year Ended December 31, 2014

#### **Total Pension Liability**

Service Cost	\$ 938,602
Interest (on the Total Pension Liability)	2,720,857.00
Changes in benefits terms	-
Difference between expected and actual experience	(303,094)
Change in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(2,129,464)</u>

**Net change in Total Pension Liability** 1,226,901

**Total Pension Liability - Beginning** 39,464,823

**Total Pension Liability - Ending (a)** \$ 40,691,724

#### **Plan Fiduciary Net Position**

Contributions - employer	\$ 1,185,438
Contributions - employee	454,154
Net investment income	1,828,420
Benefit payments, including refunds of employee contributions	(2,129,464)
Administrative expense	(19,092)
Other	<u>(1,570)</u>

**Net Change in Plan Fiduciary Net Position** 1,317,886

**Plan Fiduciary Net Position, Beginning** 31,966,475

**Plan Fiduciary Net Position, Ending (b)** \$ 33,284,361

**Net Pension Liability- ending (a) - (b)** 7,407,363

**Plan Fiduciary Net Position as a percentage of Total Pension Liability** 81.80%

**Covered employee payroll** \$ 7,569,229

**Net Pension Liability as a percentage of covered payroll** 97.86%

Note: Effective October 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68. Information for years prior to 2014 is not available.

**CITY OF PALESTINE, TEXAS**  
*SCHEDULE OF CONTRIBUTIONS*  
 For Fiscal Year Ended September 30, 2015

	2014
Actuarially Determined Contribution	\$ 1,185,438
Contributions in Relation to the Actuarially Determined Contribution	\$ 1,185,438
Contribution Deficiency (Excess)	\$ -
Covered Employee Payroll	\$ 7,569,229
Contributions as a Percentage of Covered Employee Payroll	15.66%

**Notes to Schedule of Contributions:**

**Valuation Date:**

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

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

Actuarial Cost Method	Entry Age Normal (EAN)
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00 %, including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year.

# CITY OF PALESTINE, TEXAS

## SCHEDULE OF FUNDING PROGRESS (1) POST-EMPLOYMENT HEALTHCARE BENEFITS September 30, 2015

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
9/30/2009	10/1/2008	\$ -	\$ 944,042	\$ 944,042	0%	\$ 7,532,755	12.53%
9/30/2010	10/1/2008	\$ -	\$ 1,028,210	\$ 1,028,210	0%	\$ 7,509,706	13.69%
9/30/2011	10/1/2008	\$ -	\$ 1,108,971	\$ 1,108,971	0%	\$ 7,908,331	14.02%
9/30/2012	10/1/2011	\$ -	\$ 903,231	\$ 903,231	0%	\$ 7,370,753	12.25%
9/30/2013	10/1/2011	\$ -	\$ 962,761	\$ 962,761	0%	\$ 7,667,108	12.56%
9/30/2014	10/1/2011	\$ -	\$ 1,020,665	\$ 1,020,665	0%	\$ 7,077,481	14.42%
9/30/2015	10/1/2014	\$ -	\$ 717,157	\$ 717,157	0%	\$ 7,569,229	9.47%

(1) 2009 is the first year the City is required to implement GASB Statement No. 45 and the requirements have been implemented prospectively, therefore, the above illustration does not reflect similar information for the two preceding years.

***COMBINING STATEMENTS AND SCHEDULES***

# **CITY OF PALESTINE, TEXAS**

## ***NONMAJOR GOVERNMENTAL FUNDS***

**September 30, 2015**

Economic Development Grant Fund

Tourism and Civic Center Fund

Airport Fund

Cemetery Fund

Municipal Court Security and Technology Funds

Gates Pac Hug Grant Fund

Carnegie Library Memorial Fund

Tobacco Grant Fund

Equitable Sharing Federal Forfeitures Fund

Police Confiscated Money Fund

TxDOT Depot Enhancement Project Fund

Loop 256 Tree Project Fund

Community Forest Fund

Search and Recovery Grant Fund

Fire Prevention Fund

Police Grants

Legacy in the Park

Generator Grant

Home Program

Debt Service Fund

Capital Projects Funds

# CITY OF PALESTINE, TEXAS

*COMBINING BALANCE SHEET (Page 1 of 2)*

**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2015**

## Special Revenue Funds

	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security	Municipal Court Technology
<b>ASSETS</b>						
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 18,699	\$ 126,740	\$ -	\$ -
Restricted cash and cash equivalents	400,850	569,134	-	-	20,184	8,494
Receivables	-	-	7,819	-	-	-
Restricted Receivables	-	45,229	5,101	-	-	-
Due from other funds	-	-	19,593	70,820	-	-
Total Assets	<u>\$ 400,850</u>	<u>\$ 614,363</u>	<u>\$ 51,212</u>	<u>\$ 197,560</u>	<u>\$ 20,184</u>	<u>\$ 8,494</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ 34,925	\$ 336	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>34,925</u>	<u>336</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - property taxes	-	-	-	-	-	-
Unavailable revenue - fines	-	-	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>						
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Public safety	-	-	-	-	20,184	8,494
Other Purposes	-	-	-	-	-	-
Economic Development	400,850	579,438	-	-	-	-
Committed for:						
Airport	-	-	50,876	-	-	-
Community forest	-	-	-	-	-	-
Cemetery	-	-	-	197,560	-	-
Unassigned	-	-	-	-	-	-
Total Fund Balances	<u>400,850</u>	<u>579,438</u>	<u>50,876</u>	<u>197,560</u>	<u>20,184</u>	<u>8,494</u>
Total Liabilities, Deferred Inflows Fund Balances	<u>\$ 400,850</u>	<u>\$ 614,363</u>	<u>\$ 51,212</u>	<u>\$ 197,560</u>	<u>\$ 20,184</u>	<u>\$ 8,494</u>

<u>Gates Pac Hug Grant</u>	<u>Carnegie Library Memorial</u>	<u>Tobacco Grant</u>	<u>Equitable Sharing Federal Forfeitures</u>	<u>Police Confiscated Money</u>	<u>TXDot Depot Enhancement Project</u>	<u>Loop 256 Tree Project</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	12,918	4,404	7,207	65,706	-	44
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 12,918</u>	<u>\$ 4,404</u>	<u>\$ 7,207</u>	<u>\$ 65,706</u>	<u>\$ -</u>	<u>\$ 44</u>
-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	910	-	-	-	-
-	-	910	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	36,223	-	-
-	-	-	-	36,223	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	12,918	3,494	7,207	29,483	-	44
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	12,918	3,494	7,207	29,483	-	44
<u>\$ -</u>	<u>\$ 12,918</u>	<u>\$ 4,404</u>	<u>\$ 7,207</u>	<u>\$ 65,706</u>	<u>\$ -</u>	<u>\$ 44</u>



# CITY OF PALESTINE, TEXAS

COMBINING BALANCE SHEET (Page 2 of 2)

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	Special Revenue Funds					
	Community Forest	Home Program	Search and Recovery Grant	Fire Prevention	PD Grants	Legacy in the Park
<b>ASSETS</b>						
Current Assets						
Cash and cash equivalents	\$ 56,552	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	-	-	2,895	3,181	-
Receivables	-	-	-	-	-	-
Restricted Receivables	-	89,453	-	-	-	-
Due from other funds	-	-	-	-	-	-
Total Assets	\$ 56,552	\$ 89,453	\$ -	\$ 2,895	\$ 3,181	\$ -
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	90,413	-	-	-	-
Total Liabilities	-	90,413	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - property taxes	-	-	-	-	-	-
Unavailable revenue - fines	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-
<b>FUND BALANCES</b>						
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Public safety	-	-	-	2,895	3,181	-
Other Purposes	-	-	-	-	-	-
Economic Development	-	-	-	-	-	-
Committed for:						
Airport	-	-	-	-	-	-
Community forest	56,552	-	-	-	-	-
Cemetery	-	-	-	-	-	-
Unassigned	-	(960)	-	-	-	-
Total Fund Balances	56,552	(960)	-	2,895	3,181	-
Total Liabilities and Fund Balances	\$ 56,552	\$ 89,453	\$ -	\$ 2,895	\$ 3,181	\$ -

<b>Capital Projects Funds</b>							Total
Generator Grant	Debt Service	Sanderson Farms Project	2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,991
-	474,059	946,966	-	66,143	225,283	-	2,807,468
-	-	-	-	-	-	-	7,819
-	51,846	353,396	-	-	-	-	545,025
-	77,157	-	-	-	-	-	167,570
<u>\$ -</u>	<u>\$ 603,062</u>	<u>\$ 1,300,362</u>	<u>\$ -</u>	<u>\$ 66,143</u>	<u>\$ 225,283</u>	<u>\$ -</u>	<u>\$ 3,729,873</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,261
-	-	-	-	13,292	-	-	104,615
-	-	-	-	13,292	-	-	139,876
-	48,134	-	-	-	-	-	48,134
-	-	-	-	-	-	-	36,223
-	48,134	-	-	-	-	-	84,357
-	-	-	-	52,851	225,283	-	278,134
-	554,928	-	-	-	-	-	554,928
-	-	-	-	-	-	-	74,938
-	-	-	-	-	-	-	12,962
-	-	-	-	-	-	-	980,288
-	-	-	-	-	-	-	50,876
-	-	-	-	-	-	-	56,552
-	-	-	-	-	-	-	197,560
-	-	1,300,362	-	-	-	-	1,299,402
-	554,928	1,300,362	-	52,851	225,283	-	3,505,640
<u>\$ -</u>	<u>\$ 603,062</u>	<u>\$ 1,300,362</u>	<u>\$ -</u>	<u>\$ 66,143</u>	<u>\$ 225,283</u>	<u>\$ -</u>	<u>\$ 3,729,873</u>

**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Page 1 of 2)**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	<b>Special Revenue Funds</b>					
	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security	Municipal Court Technology
<b>Revenues:</b>						
Taxes	\$ -	\$625,958	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	389,755	-	-	-
Charges for services	-	-	5,815	9,750	-	-
Fines and forfeitures	-	-	-	-	4,832	6,991
Rentals	-	16,897	12,678	-	-	-
Investment revenue	243	176	1	1	-	-
Other revenue	-	567	2,180	-	-	-
Total revenues	<u>243</u>	<u>643,598</u>	<u>410,429</u>	<u>9,751</u>	<u>4,832</u>	<u>6,991</u>
<b>Expenditures:</b>						
Current						
Public Safety	-	-	-	-	-	-
Community Services	-	-	469,137	9,800	-	-
Community Development	-	468,715	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>468,715</u>	<u>469,137</u>	<u>9,800</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	243	174,883	(58,708)	(49)	4,832	6,991
<b>Other financing sources (uses):</b>						
Long-term debt proceeds	-	-	-	-	-	-
Transfers in	-	49,575	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>49,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	243	224,458	(58,708)	(49)	4,832	6,991
Fund balances, October 1	400,607	354,980	109,584	197,609	15,352	1,503
Fund balances, September 30	<u>\$ 400,850</u>	<u>\$579,438</u>	<u>\$ 50,876</u>	<u>\$197,560</u>	<u>\$20,184</u>	<u>\$ 8,494</u>

<u>Gates Pac Hug Grant</u>	<u>Carnegie Library Memorial</u>	<u>Tobacco Grant</u>	<u>Equitable Sharing Federal Forfeitures</u>	<u>Police Confiscated Money</u>	<u>TXDot Depot Enhancement Project</u>	<u>Loop 256 Tree Project</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	6,225	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	4,744	-	-
-	-	-	-	-	-	-
-	-	-	59	-	-	-
-	1,350	-	-	-	-	-
<u>-</u>	<u>1,350</u>	<u>6,225</u>	<u>59</u>	<u>4,744</u>	<u>-</u>	<u>-</u>
-	-	9,797	22,597	13,402	-	-
-	6,177	-	-	-	87	-
-	-	-	-	-	-	990
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>6,177</u>	<u>9,797</u>	<u>22,597</u>	<u>13,402</u>	<u>87</u>	<u>990</u>
-	(4,827)	(3,572)	(22,538)	(8,658)	(87)	(990)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(1,239)	-	-	-	-	-	-
<u>(1,239)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(1,239)	(4,827)	(3,572)	(22,538)	(8,658)	(87)	(990)
1,239	17,745	7,066	29,745	38,141	87	1,034
<u>\$ -</u>	<u>\$ 12,918</u>	<u>\$ 3,494</u>	<u>\$ 7,207</u>	<u>\$ 29,483</u>	<u>\$ -</u>	<u>\$ 44</u>

**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Page 2 of 2)**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	<b>Special Revenue Funds</b>						
	Community Forest	Home Program	Search and Recovery Grant	Fire Prevention	PD Grants	Legacy in the Park	Generator Grant
<b>Revenues:</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	89,453	-	-	1,535	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-
Rentals	-	-	-	-	-	-	-
Investment revenue	30	-	-	7	-	-	-
Miscellaneous revenue	-	-	-	-	-	-	-
Total revenues	<u>30</u>	<u>89,453</u>	<u>-</u>	<u>7</u>	<u>1,535</u>	<u>-</u>	<u>-</u>
<b>Expenditures:</b>							
Current							
Public Safety	-	-	-	1,590	5,823	-	-
Community Services	-	-	5,246	-	-	-	-
Community Development	-	88,403	-	-	-	18,887	-
Debt service							
Principal	-	-	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>88,403</u>	<u>5,246</u>	<u>1,590</u>	<u>5,823</u>	<u>18,887</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	30	1,050	(5,246)	(1,583)	(4,288)	(18,887)	-
<b>Other financing sources (uses):</b>							
Long-term debt proceeds	-	-	-	-	-	-	-
Transfers in	-	1,050	-	-	-	-	6,994
Transfers out	-	-	-	-	(22,715)	-	-
Total other financing sources (uses)	<u>-</u>	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>(22,715)</u>	<u>-</u>	<u>6,994</u>
Net change in fund balance	30	2,100	(5,246)	(1,583)	(27,003)	(18,887)	6,994
Fund balances, October 1	<u>56,522</u>	<u>(3,060)</u>	<u>5,246</u>	<u>4,478</u>	<u>30,184</u>	<u>18,887</u>	<u>(6,994)</u>
Fund balances, September 30	<u>\$ 56,552</u>	<u>\$ (960)</u>	<u>\$ -</u>	<u>\$ 2,895</u>	<u>\$ 3,181</u>	<u>\$ -</u>	<u>\$ -</u>

<b>Capital Projects Funds</b>					Total
Sanderson Farms Project	2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,429,143
423,018	-	-	-	-	1,174,051
-	-	-	-	-	15,565
-	-	-	-	-	16,567
-	-	-	-	-	29,575
718	-	165	-	-	1,490
112,585	-	-	-	-	116,682
<u>536,321</u>	<u>-</u>	<u>165</u>	<u>-</u>	<u>-</u>	<u>2,783,073</u>
-	-	-	-	-	53,209
-	-	-	-	-	490,447
1,668,875	-	13,292	-	-	2,259,162
-	-	-	-	-	475,000
-	-	-	-	-	327,422
<u>1,668,875</u>	<u>-</u>	<u>13,292</u>	<u>-</u>	<u>-</u>	<u>3,605,240</u>
(1,132,554)	-	(13,127)	-	-	(822,167)
2,550,000	-	-	-	-	2,550,000
245,239	42,186	-	-	164,246	577,008
-	-	-	-	-	(23,954)
<u>2,795,239</u>	<u>42,186</u>	<u>-</u>	<u>-</u>	<u>164,246</u>	<u>3,103,054</u>
1,662,685	42,186	(13,127)	-	164,246	2,280,887
<u>(362,323)</u>	<u>(42,186)</u>	<u>65,978</u>	<u>225,283</u>	<u>(164,246)</u>	<u>1,224,753</u>
<u>\$ 1,300,362</u>	<u>\$ -</u>	<u>\$ 52,851</u>	<u>\$ 225,283</u>	<u>\$ -</u>	<u>\$ 3,505,640</u>

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	TOURISM AND CIVIC CENTER			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 420,000	\$ 420,000	\$ 625,958	\$ 205,958
Rentals	14,000	14,000	16,897	2,897
Interest	46	46	176	130
Other	-	-	567	567
Total revenues	434,046	434,046	643,598	209,552
Expenditures:				
Community Development	480,455	480,455	468,715	11,740
Total expenditures	480,455	480,455	468,715	11,740
Excess (deficiency) of revenues over (under) expenditures	(46,409)	(46,409)	174,883	221,292
Other financing sources (uses)				
Transfers in	49,575	49,575	49,575	-
Total other financing sources (uses)	49,575	49,575	49,575	-
Net change in fund balance	\$ 3,166	\$ 3,166	224,458	\$ 221,292
Fund balances, October 1			354,980	
Fund balances, September 30			\$ 579,438	

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	AIRPORT			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Intergovernmental	\$ 389,755	\$ 389,755	\$ 389,755	\$ -
Rentals	8,767	8,767	12,678	3,911
Charges for services	-	-	5,815	5,815
Other revenue	3,400	3,400	2,180	(1,220)
Interest	-	-	1	1
Total revenues	401,922	401,922	410,429	8,507
Expenditures:				
Community Services	505,079	505,079	469,137	35,942
Total expenditures	505,079	505,079	469,137	35,942
Excess (deficiency) of revenues over (under) expenditures	(103,157)	(103,157)	(58,708)	44,449
Net change in fund balance	(103,157)	(103,157)	(58,708)	44,449
Fund balances, October 1			109,584	
Fund balances, September 30			\$ 50,876	



**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	CEMETERY			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Charges for services	\$ 15,000	\$ 15,000	\$ 9,750	\$ (5,250)
Interest	-	-	1	1
Total revenues	15,000	15,000	9,751	(5,249)
Expenditures:				
Community Services	15,000	15,000	9,800	5,200
Total expenditures	15,000	15,000	9,800	5,200
Excess (deficiency) of revenues over (under) expenditures	-	-	(49)	(49)
Net change in fund balance	\$ -	\$ -	(49)	\$ (49)
Fund balances, October 1			197,609	
Fund balances, September 30			\$ 197,560	

**CITY OF PALESTINE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	DEBT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 868,830	\$ 868,830	\$ 803,185	\$ (65,645)
Intergovernmental	-	-	264,065	264,065
Interest	-	-	90	90
Total revenues	<u>868,830</u>	<u>868,830</u>	<u>1,067,340</u>	<u>198,510</u>
Debt Service:				
Principal	475,000	475,000	475,000	-
Interest and fiscal charges	<u>326,833</u>	<u>326,833</u>	<u>327,422</u>	<u>(589)</u>
Total expenditures	<u>801,833</u>	<u>801,833</u>	<u>802,422</u>	<u>(589)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>66,997</u>	<u>66,997</u>	<u>264,918</u>	<u>197,921</u>
Other financing sources (uses)				
Transfers in	-	-	67,718	67,718
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>67,718</u>	<u>67,718</u>
Net change in fund balance	<u>\$ 66,997</u>	<u>\$ 66,997</u>	332,636	<u>\$ 265,639</u>
Fund balances, October 1			<u>222,292</u>	
Fund balances, September 30			<u>\$ 554,928</u>	

# **CITY OF PALESTINE, TEXAS**

## ***INTERNAL SERVICE FUNDS***

**September 30, 2015**

### **Central Warehouse Fund**

This internal service fund is used to account for inventory and maintenance services to departments or agencies of the City on a cost-reimbursement basis.

### **Health Insurance Fund**

This internal service fund is used to account for the costs associated with health insurance for employees.

### **Workers Compensation Fund**

This internal service fund is used to account for the costs associated with Workers Compensation of employees.

### **Equipment Replacement Fund**

This internal service fund is used to account for equipment replacement to departments or agencies of the City on a cost- reimbursement basis.

### **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, 2015

	CENTRAL WAREHOUSE	HEALTH INSURANCE	WORKERS' COMPENSATION	EQUIPMENT REPLACEMENT
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ -	\$ 72,773	\$ 137,287	\$ 445,578
Accounts receivable	10,762	-	-	-
Due from other funds	-	-	34,555	-
Total current assets	10,762	72,773	171,842	445,578
Noncurrent Assets:				
Capital Assets (net)	-	-	-	1,189,017
Total noncurrent assets	-	-	-	1,189,017
Total assets	\$ 10,762	\$ 72,773	\$ 171,842	\$ 1,634,595
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	\$ 1,014	\$ 278,429	\$ -	\$ 13,750
Due to other funds	34,555	-	161,300	-
Long-term liabilities- due less than a year	-	-	-	203,457
Total current liabilities	35,569	278,429	161,300	217,207
Noncurrent liabilities				
Long-term liabilities - due more than a year	-	-	-	269,873
Total noncurrent liabilities	-	-	-	269,873
Total Liabilities	35,569	278,429	161,300	487,080
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	-	-	-	715,687
Unrestricted	(24,807)	(205,656)	10,542	431,828
Total net position	(24,807)	(205,656)	10,542	1,147,515
Total Liabilities and Net Position	\$ 10,762	\$ 72,773	\$ 171,842	\$ 1,634,595

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 195,241	\$ 850,879
-	10,762
-	34,555
<u>195,241</u>	<u>896,196</u>
-	1,189,017
-	1,189,017
<u>\$ 195,241</u>	<u>\$ 2,085,213</u>
\$ -	\$ 293,193
-	195,855
-	203,457
<u>-</u>	<u>692,505</u>
-	269,873
<u>-</u>	<u>269,873</u>
-	962,378
-	715,687
195,241	407,148
<u>195,241</u>	<u>1,122,835</u>
<u>\$ 195,241</u>	<u>\$ 2,085,213</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, 2015**

	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
<b>OPERATING REVENUES:</b>				
Charges for Services and Sales	\$ 92,623	\$ 2,174,178	\$ 77,580	\$ 279,147
Total Operating Revenues	<u>92,623</u>	<u>2,174,178</u>	<u>77,580</u>	<u>279,147</u>
<b>OPERATING EXPENSES:</b>				
Cost of Services	117,025	2,446,112	125,495	2,949
Depreciation	-	-	-	291,133
Total Operating Expenses	<u>117,025</u>	<u>2,446,112</u>	<u>125,495</u>	<u>294,082</u>
Operating Income (loss)	<u>(24,402)</u>	<u>(271,934)</u>	<u>(47,915)</u>	<u>(14,935)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest revenue	-	186	188	216
Interest expense	-	-	-	(18,130)
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>186</u>	<u>188</u>	<u>(17,914)</u>
<b>Net Income (Loss) before transfers</b>	<u>(24,402)</u>	<u>(271,748)</u>	<u>(47,727)</u>	<u>(32,849)</u>
Transfer in	-	876,974	60,000	-
Transfer out	-	-	(30,000)	-
<b>Change in net position</b>	<u>(24,402)</u>	<u>605,226</u>	<u>(17,727)</u>	<u>(32,849)</u>
Net position, October 1	<u>(405)</u>	<u>(810,882)</u>	<u>28,269</u>	<u>1,180,364</u>
Net position, September 30	<u>\$ (24,807)</u>	<u>\$ (205,656)</u>	<u>\$ 10,542</u>	<u>\$ 1,147,515</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ -	\$ 2,623,528
-	2,623,528
16,056	2,707,637
-	291,133
16,056	2,998,770
(16,056)	(375,242)
-	590
-	(18,130)
-	(17,540)
(16,056)	(392,782)
-	936,974
(67,742)	(97,742)
(83,798)	446,450
279,039	676,385
\$ 195,241	\$ 1,122,835

# CITY OF PALESTINE, TEXAS

## COMBINING STATEMENT OF CASH FLOWS

### ALL INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	CENTRAL WAREHOUSE	HEALTH INSURANCE	WORKERS' COMPENSATION
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Interfund services provided	\$ 81,861	\$ 2,174,178	\$ 77,580
Cash Payments to Other Suppliers for Goods and Services	(116,416)	(2,429,191)	(125,495)
Internal Activity-payments from other funds	34,555	-	-
Internal Activity-payments to other funds	-	(549,374)	(34,555)
Net Cash Provided ( Used) by Operating Activities	-	(804,387)	(82,470)
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Transfer from (to) other funds	-	876,974	30,000
Net Cash Provided (Used) by Non-capital Financing Activities	-	876,974	30,000
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Principal paid on capital debt	-	-	-
Interest paid on capital debt	-	-	-
Proceeds from capital debt	-	-	-
Acquisition and Construction of Capital Assets	-	-	-
Net Cash Provided (Used) for Capital and Related Financing Activities	-	-	-
<b>Cash Flows from Investing Activities:</b>			
Interest received	-	186	188
Net Cash Provided (Used) for Investing Activities	-	186	188
Net Increase (Decrease) in Cash and Cash Equivalents	-	72,773	(52,282)
<b>Cash and Cash Equivalents at Beginning of Year</b>	-	-	189,569
<b>Cash and Cash Equivalents at End of Year</b>	\$ -	\$ 72,773	\$ 137,287
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	(24,402)	(271,934)	(47,915)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	-	-	-
Change in Assets and Liabilities			
Decrease (Increase) inAccounts Receivable	(10,762)	-	-
Increase (Decrease) in Accounts Payable	609	16,921	-
Increase (Decrease) in Interfund payable	34,555	(549,374)	(34,555)
Total Adjustments	24,402	(532,453)	(34,555)
Net Cash Provided (Used) by Operating Activities	\$ -	\$ (804,387)	\$ (82,470)
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>			
Borrowing under capital lease			
Total noncash investing, capital and financing activities:	\$ -	\$ -	\$ -



<u>EQUIPMENT REPLACEMENT</u>	<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 279,147	\$ -	\$ 2,612,766
(2,949)	(16,056)	(2,690,107)
329,256	-	363,811
-	-	(583,929)
<u>605,454</u>	<u>(16,056)</u>	<u>(297,459)</u>
-	(67,742)	839,232
<u>-</u>	<u>(67,742)</u>	<u>839,232</u>
(248,279)	-	(248,279)
(18,774)	-	(18,774)
229,072	-	229,072
(149,468)	-	(149,468)
<u>(187,449)</u>	<u>-</u>	<u>(187,449)</u>
216	-	590
<u>216</u>	<u>-</u>	<u>590</u>
418,221	(83,798)	354,914
<u>27,357</u>	<u>279,039</u>	<u>495,965</u>
<u>\$ 445,578</u>	<u>\$ 195,241</u>	<u>\$ 850,879</u>
(14,935)	(16,056)	(375,242)
291,133	-	291,133
-	-	(10,762)
-	-	17,530
329,256	-	(220,118)
<u>620,389</u>	<u>-</u>	<u>77,783</u>
<u>\$ 605,454</u>	<u>\$ (16,056)</u>	<u>\$ (297,459)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>