

ANNUAL FINANCIAL REPORT

of the

CITY OF PALESTINE, TEXAS

For the Year Ended September 30, 2016

Officials Issuing Report:

**Mike Alexander, City Manager
Steve Groom, Finance Director**

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INTRODUCTORY SECTION



Letter of Transmittal

August 11, 2017

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

The Annual Financial Report for the City of Palestine, Texas for the fiscal year that ended September 30, 2016, is hereby submitted for your review. This report was prepared through the cooperative efforts of the independent auditors and the City's Finance Department. The purpose of the report is to provide the City Council, management, staff, citizens, bondholders, and other interested parties with detailed information concerning the financial condition and activities of the City.

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

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

The annual financial report is comprised of the Financial Section, the Basic Financial Statements, Required Supplementary Information and Combining Statements and Schedules. Included in the Financial section is the Management's Discussion and Analysis (MD&A), which provides users a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

This Year's Audit Timing

The audit completion this year has been unusually late, and is due to multiple factors within the City's responsibility. The City of Palestine has experienced repeated turnover in both the Finance Department, for many years, and citywide management. Bank reconciliations have been chronically difficult and have lagged many months as noted in audit findings going back for many years. Three things are different this year: 1) outside training was brought in from the city's financial systems software vendor involving all city staff involved with transactions from

inception through to reconciliation of bank and systems, 2) a permanent Finance Director, now in the second year of service at this city, provides a level of continuity that has been missing for several years of turnover, and 3) the roles of finance staff have been formally redefined to provide more than simply processing payroll, payables and financial reporting on request and another level of responsibility is built into each position for the behind-the-scenes fundamental accounting processes. City management and department staff have been supportive of the additional time and effort required of finance staff for the less-visible functions required to maintain controls and follow through on complete and thorough accounting. Cross-training and redundancy is being built in to recover from staff turnover which created a bottleneck through one single experienced employee from whom the rebuilding of the department has been trained. As evidence of this transformation, the city's accountability and transparency have demonstrably improved; the city website now has monthly financial reports, check registers, quarterly treasury reports and annual policies which did not exist previously in addition to annual audits and budgets.

Long-term Financial Planning

The City has adopted financial management policies that provide the basis for the City's financial operations. The unassigned fund balance in the General Fund, \$2,017,854, (see page 13) represents 14% of total General Fund expenditures \$14,627,187 (page 15) which falls short of the 25% target in the City's Fund Balance Policy adopted by the City Council for budgetary and planning purposes. In addition to providing financial stability and sustainability during difficult economic times, the City may use available fund balance reserves as a means to fund one-time, non-recurring projects or expenditures.

As noted on the Budgetary Comparison schedule (see page 48), Sales Tax Revenue fell short of budget by (\$549,809) and Property Tax Revenue fell short of budget by (\$128,395). While management effected course-correcting belt-tightening which resulted in expenditures favorable to budget by \$392,296, an unforeseen expenditure of \$520,000 was brought to city council for additional appropriation due to the city experiencing a flooding natural disaster in April 2016, which triggered a multi-agency response. City coordinated with County, State and Federal FEMA agency personnel resulting in the City qualifying for partial reimbursement of emergency response expenses. City Council and staff recognize that the policy target in place will serve to rebuild city resources and are managing accordingly.

Accounting System and Budgetary Control

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

Budgetary reporting is provided at the department level within the individual fund. Transfers of budget appropriations within funds may occur with the approval of the City Manager provided there is no increase in overall expenditures. Transfers of budget appropriations between funds, as well as any increase in total appropriations, require a formal budget amendment adopted by

the City Council. Unless otherwise noted, except for capital projects funds, all appropriations lapse at year-end and excess funds become available for re-appropriation in the subsequent year. At year-end, encumbrances are recorded as a reservation of fund balance, and then re-appropriated in the subsequent year.

Near the midpoint of each fiscal year, the City Council adopts a course-correcting current year revised budget by ordinance. With six months of actual results, this revised budget presents a more accurate picture of the City's financial position at the end of the current year than does the originally-adopted budget. This audit report provides comparative information on the original adopted and revised budget on page 48.

Acknowledgements

The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Finance Department. Many individuals devoted extra hours and exhibited dedicated effort in ensuring the accuracy and timeliness of this report. Appreciation is expressed to City employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based. The Finance Department

Staff wishes to thank and acknowledge Frank Campos, Certified Public Accountant, and his staff for their dedicated assistance in producing this report and in the on-going policy discussions that are instrumental in applying Government Accounting Standards appropriately.

Independent Audit

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

Respectfully submitted,



Steve Groom, CGFM, CGFO
Finance Director

FINANCIAL SECTION

FRANK CAMPOS & ASSOCIATES

A Professional Limited Liability Company of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and City Council Members
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 the City of Palestine, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas as of September 30, 2016, 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

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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, schedule of contributions, schedule of changes in pension liability and related ratios, and schedule of funding progress on pages 3-10 and 48-51 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 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 and the combining and individual nonmajor fund financial statements 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 August 15, 2017, 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
August 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
September 30, 2016

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, 2016. 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, 2016

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, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows exceed liabilities and deferred inflows by \$33,240,843 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,805,525	\$ 7,966,095	\$ 8,788,269	\$ 7,621,229	\$ 15,593,794	\$ 15,587,324
Capital assets	19,242,552	19,274,802	28,365,253	29,173,700	47,607,805	48,448,502
Total assets	<u>26,048,077</u>	<u>27,240,897</u>	<u>37,153,522</u>	<u>36,794,929</u>	<u>63,201,599</u>	<u>64,035,826</u>
Deferred outflows	<u>2,844,666</u>	<u>1,306,655</u>	<u>582,643</u>	<u>267,629</u>	<u>3,427,309</u>	<u>1,574,284</u>
Other liabilities	1,383,374	828,205	757,835	523,630	2,141,209	1,351,835
Long-term liabilities	<u>19,958,895</u>	<u>18,598,563</u>	<u>10,820,437</u>	<u>11,341,350</u>	<u>30,779,332</u>	<u>29,939,913</u>
Total liabilities	<u>21,342,269</u>	<u>19,426,768</u>	<u>11,578,272</u>	<u>11,864,980</u>	<u>32,920,541</u>	<u>31,291,748</u>
Deferred inflows	<u>388,195</u>	<u>183,047</u>	<u>79,329</u>	<u>37,491</u>	<u>467,524</u>	<u>220,538</u>
Net Position:						
Net investment in capital assets	8,998,486	8,484,473	20,323,071	21,588,418	29,321,557	30,072,891
Restricted	3,021,142	3,201,612	1,012,685	1,192,779	4,033,827	4,394,391
Unrestricted	<u>(4,857,349)</u>	<u>(2,748,348)</u>	<u>4,742,808</u>	<u>2,378,890</u>	<u>(114,541)</u>	<u>(369,458)</u>
Total net position	<u>\$ 7,162,279</u>	<u>\$ 8,937,737</u>	<u>\$ 26,078,564</u>	<u>\$ 25,160,087</u>	<u>\$ 33,240,843</u>	<u>\$ 34,097,824</u>

A portion of the primary government's net position, \$4,033,827, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$114,541. The City's unrestricted net position improved during the year.

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

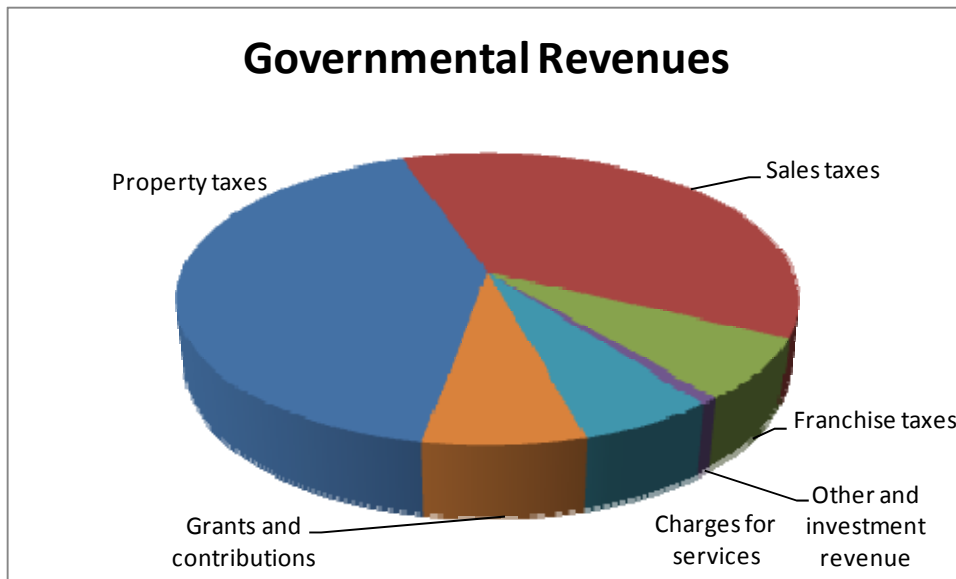
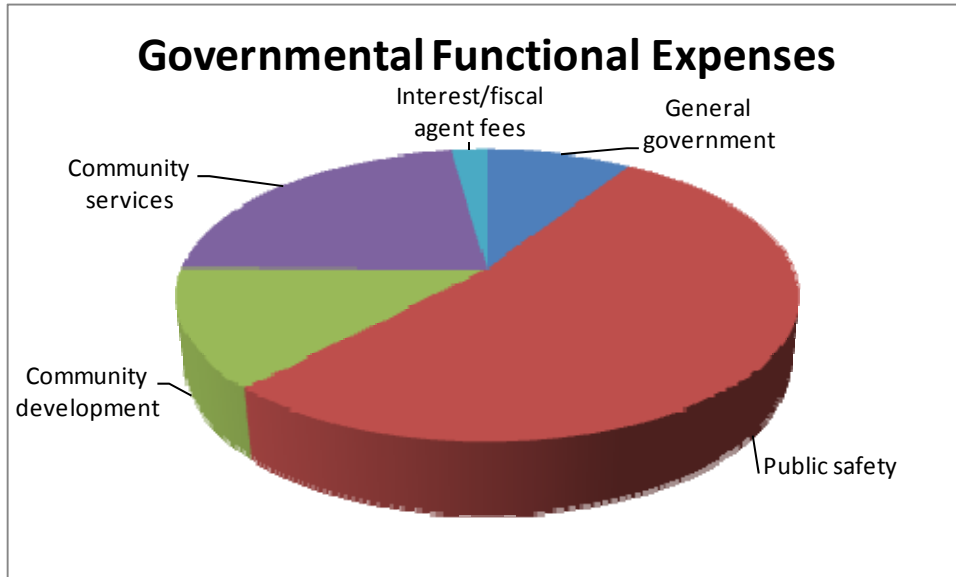
Statement of Activities

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

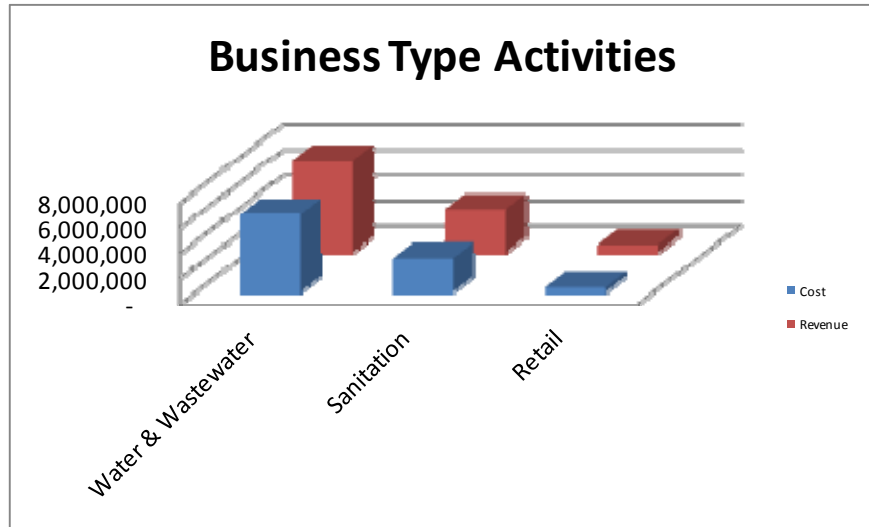
	CITY OF PALESTINE'S CHANGES IN NET POSITION					
	Governmental Activities		Business -type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 899,765	\$ 891,745	\$ 11,288,724	\$ 11,799,769	\$ 12,188,489	\$ 12,691,514
Operating grants and contributions	691,525	779,532	-	-	691,525	779,532
Capital grants and contributions	381,365	876,516	-	-	381,365	876,516
General revenues:						
Property taxes	6,301,758	6,043,894	-	-	6,301,758	6,043,894
Sales taxes	5,604,257	5,899,830	-	-	5,604,257	5,899,830
Franchise taxes	1,027,661	1,023,089	-	-	1,027,661	1,023,089
Investment earnings	36,204	19,336	5,179	3,118	41,383	22,454
Gain on sale of assets	55,586	102,283	-	-	55,586	102,283
Other income (loss)	28,681	180,662	-	-	28,681	180,662
Total revenues	<u>15,026,802</u>	<u>15,816,887</u>	<u>11,293,903</u>	<u>11,802,887</u>	<u>26,320,705</u>	<u>27,619,774</u>
Expenses:						
General government	1,642,279	1,490,998	-	-	1,642,279	1,490,998
Public safety	9,507,636	7,212,271	-	-	9,507,636	7,212,271
Community services	4,057,567	3,461,113	-	-	4,057,567	3,461,113
Community development	2,362,118	2,598,872	-	-	2,362,118	2,598,872
Interest on long-term debt	402,246	348,349	-	-	402,246	348,349
Water and Wastewater	-	-	6,138,416	5,817,415	6,138,416	5,817,415
Sanitation	-	-	2,690,298	2,871,842	2,690,298	2,871,842
Retail	-	-	377,125	508,108	377,125	508,108
Total expenses	<u>17,971,846</u>	<u>15,111,603</u>	<u>9,205,839</u>	<u>9,197,365</u>	<u>27,177,685</u>	<u>24,308,968</u>
Increases (decreases) in net assets before transfers	(2,945,044)	705,284	2,088,064	2,605,522	(856,980)	3,310,806
Transfers	<u>1,169,587</u>	<u>857,729</u>	<u>(1,169,587)</u>	<u>(857,729)</u>	<u>-</u>	<u>-</u>
Change in net position	(1,775,457)	1,563,013	918,477	1,747,793	(856,980)	3,310,806
Net Position - beginning	8,937,736	12,536,227	25,160,087	25,262,239	34,097,823	37,798,466
Prior Period Adjustment	-	(5,161,504)	-	(1,849,945)	-	(7,011,449)
Net Position- ending	<u>\$ 7,162,279</u>	<u>\$ 8,937,736</u>	<u>\$ 26,078,564</u>	<u>\$ 25,160,087</u>	<u>\$ 33,240,843</u>	<u>\$ 34,097,823</u>

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

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, 2016



For the year, revenue from governmental activities totaled \$15,026,802. Property and sales tax revenues are the City's largest revenue sources. Property taxes increased by 4.3%, while sales taxes decreased by 5.0%.

Franchise fees collected from electric, gas, cable, and telephone/telecommunications utilities, totaled \$1,027,661 for the year, an increase of 0.45% from the prior year.

For the year, expenses for governmental activities totaled \$17,971,846. This represents an increase of \$2,860,243, or 18.9%, over last year.

Business-type activities change in net position was \$918,477.

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 \$5,389,597. Of this, \$141,650 is reported as nonspendable-notes receivables and \$36,481 as nonspendable-prepaid items, \$3,021,142 is reported as restricted, \$260,898 is reported as committed and the remaining fund balance of \$1,929,426 is unassigned.

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

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 budgeted decrease in fund balance in the amount of \$545,543 in the general fund. However, the net change in fund balance decreased by \$621,201, resulting in a negative variance of \$75,658 from budgeted as amended over actual. General fund revenues were under budget by \$468,315 and general fund expenditures were under budget by \$392,296. Main revenues under budget were property tax by \$128,395 and sales tax by \$549,809. Main expenditure categories over budget were general government by \$9,646. Further detail regarding the general fund budget can be found on page 48 of this report.

CAPITAL ASSETS

At year-end, the City's governmental activity funds had invested \$19,242,552 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 \$1,677,491.

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	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,118,457	\$ 2,118,457	\$ 1,800,468	\$ 1,800,468	\$ 3,918,925	\$ 3,918,925
Buildings	5,488,026	5,488,026	10,395,217	10,052,093	15,883,243	15,540,119
Improvements	10,335,264	10,288,956	-	-	10,335,264	10,288,956
Machinery and equipment	11,051,800	9,565,350	599,383	706,010	11,651,183	10,271,360
Infrastructure	32,086,184	32,029,616	46,368,679	45,687,225	78,454,863	77,716,841
Construction in progress	38,780	-	38,745	-	77,525	-
Less accumulated depreciation	(41,875,959)	(40,215,603)	(30,837,239)	(29,072,096)	(72,713,198)	(69,287,699)
Net Assets - ending	\$ 19,242,552	\$ 19,274,802	\$ 28,365,253	\$29,173,700	\$ 47,607,805	\$ 48,448,502

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation of \$12,422,000 and \$6,077,823 in revenue bonds outstanding. The City redeemed \$1,145,000 of certificates of obligation and \$623,629 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	
	2016	2015	2016	2015	2016	2015
Capital leases	\$ 817,066	\$ 473,329	\$ -	\$ -	\$ 817,066	\$ 473,329
Revenue bonds	-	-	6,077,823	6,701,452	6,077,823	6,701,452
Certificates of obligation	9,427,000	10,317,000	2,995,000	3,250,000	12,422,000	13,567,000
Total	\$ 10,244,066	\$ 10,790,329	\$ 9,072,823	\$ 9,951,452	\$ 19,316,889	\$ 20,741,781

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Palestine is a rural city, so nearby measures are helpful but not directly applicable. According to the US Bureau of Labor Statistics(BLS), the Consumer Price Index (CPI) increased 1.6% for the Houston-Galveston-Brazoria area (June 2016 report) and increased 1.0% for the Dallas-Fort Worth area (May 2016 report). More broadly, the South as a whole increased 0.8% over the past year. The BLS also reports that the change in Nonfarm Wage and Salary Employment for the Tyler, TX area over the past 12 months was up 2.1%. Unemployment rates for Anderson County, which include the City, increased from a low of 3.9% in October of 2015 to 4.4% as of September 2016, an increase of 0.5%.

The U.S. Census Bureau estimates that the population of Palestine as of July 1, 2016 was 18,383, a 1.02% decrease over the 2010 census data population of 18,712. These figures compare to the estimated population of Anderson County as a whole, which was estimated as of 2016 at 57,734, a 1.03% decrease over the 2010 census of 58,458.

Economic Development successes included the opening of a call center in the Willow Creek Business Park in June. Permit processes for Chili's resulted in a subsequent new restaurant opening in May 2017.

The FY2016-17 Budget was approved by city council appropriating the same tax rate as prior year but with a \$965,000 reduction of General Fund expenses. Certified Tax Rolls from the Anderson County Appraisal District decreased by \$2.9 million (\$977.8 million to \$947.9 million) from 2015 to 2016. Significant accomplishments of the budget include recruitment of a permanent City Manager, FEMA reimbursement for the April 2016 flood natural disaster, and a one-time General Fund expenditure.

In April 2016, the City of Palestine improved transparency and accountability reporting on the city website, commencing the posting of monthly financial reports to council, monthly check registers, quarterly treasury reports, annual debt disclosure, and investment and fund balance policies.

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 Steve Groom, Finance Director 504 N. Queen, Palestine, TX, 75801, telephone 903.731.8439, or email sgroom@palestine-tx.org.

BASIC FINANCIAL STATEMENT

CITY OF PALESTINE, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,955,627	\$ 4,764,436	\$ 6,720,063	\$ 1,519,211
Receivable (net of allowance of doubtful accounts)	1,820,006	1,109,896	2,929,902	166,406
Note receivable, current portion	141,650	-	141,650	-
Prepaid items	36,481	-	36,481	-
Certificate of Deposits	-	400,000	400,000	-
Internal Balances	232,854	(232,854)	-	-
Total Current Assets	4,186,618	6,041,478	10,228,096	1,685,617
Noncurrent Assets				
Restricted Assets				
Cash and cash equivalents	2,118,046	2,333,299	4,451,345	-
Receivable (net of allowance of doubtful accounts)	221,267	-	221,267	-
Certificate of Deposits	279,594	413,492	693,086	-
Capital Assets:				
Nondepreciable	2,157,237	1,839,213	3,996,450	1,001,867
Depreciable, net	17,085,315	26,526,040	43,611,355	3,062,082
Total Noncurrent Assets	21,861,459	31,112,044	52,973,503	4,063,949
Total Assets	26,048,077	37,153,522	63,201,599	5,749,566
DEFERRED OUTFLOW OF RESOURCES				
Deferred outflows related to pensions	2,844,666	582,643	3,427,309	-
LIABILITIES				
Accounts payable and accrued liabilities	1,340,197	444,487	1,784,684	78,179
Accrued interest payable	43,177	35,091	78,268	12,180
Water meter deposits - Refundable	-	278,257	278,257	-
Non-current Liabilities:				
Due within a year	1,827,822	1,067,301	2,895,123	390,000
Due in more than a year	18,131,073	9,753,136	27,884,209	2,825,000
Total Liabilities	21,342,269	11,578,272	32,920,541	3,305,359
DEFERRED INFLOW OF RESOURCES				
Deferred inflows related to pensions	388,195	79,329	467,524	-
Total Liabilities and Deferred Inflows of Resources	21,730,464	11,657,601	33,388,065	3,305,359
NET POSITION				
Net Investment in Capital Assets	8,998,486	20,323,071	29,321,557	848,949
Restricted For:				
Debt Service	636,641	1,012,685	1,649,326	-
Capital Projects	1,225,119	-	1,225,119	-
Public Safety	106,739	-	106,739	-
Economic Development	1,036,459	-	1,036,459	-
Other purposes	16,184	-	16,184	-
Unrestricted	(4,857,349)	4,742,808	(114,541)	1,595,258
Total Net Position	\$ 7,162,279	\$ 26,078,564	\$ 33,240,843	\$ 2,444,207

See the accompanying Notes to Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,642,279	\$ -	\$ -	\$ -
Public Safety	9,507,636	599,702	78,664	183,395
Community Services	4,057,567	183,755	366,582	-
Community Development	2,362,118	116,308	246,279	197,970
Interest expense on long term debt	402,246	-	-	-
Total Governmental Activities	17,971,846	899,765	691,525	381,365
 Business-type Activities				
Water and Wastewater fund	6,138,416	7,255,558	-	-
Sanitation	2,690,298	3,414,943	-	-
Retail	377,125	618,223	-	-
Total Business-type Activities	9,205,839	11,288,724	-	-
 Total Primary Government	\$ 27,177,685	\$ 12,188,489	\$ 691,525	\$ 381,365
 Component Unit				
PEDC	\$ 1,687,468	48,965	-	60,000

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

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
\$ (1,642,279)	\$ -	\$ (1,642,279)	\$ -
(8,645,875)	-	(8,645,875)	-
(3,507,230)	-	(3,507,230)	-
(1,801,561)	-	(1,801,561)	-
(402,246)	-	(402,246)	-
<u>(15,999,191)</u>	<u>-</u>	<u>(15,999,191)</u>	<u>-</u>
-	1,117,142	1,117,142	-
-	724,645	724,645	-
-	241,098	241,098	-
<u>-</u>	<u>2,082,885</u>	<u>2,082,885</u>	<u>-</u>
<u>(15,999,191)</u>	<u>2,082,885</u>	<u>(13,916,306)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,578,503)</u>
6,301,758	-	6,301,758	-
1,027,661	-	1,027,661	-
5,604,257	-	5,604,257	1,015,181
36,204	5,179	41,383	4,923
55,586	-	55,586	-
28,681	-	28,681	457,017
1,169,587	(1,169,587)	-	-
<u>14,223,734</u>	<u>(1,164,408)</u>	<u>13,059,326</u>	<u>1,477,121</u>
(1,775,457)	918,477	(856,980)	(101,382)
8,937,736	25,160,087	34,097,823	2,545,589
<u>\$ 7,162,279</u>	<u>\$ 26,078,564</u>	<u>\$ 33,240,843</u>	<u>\$ 2,444,207</u>

CITY OF PALESTINE, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and cash equivalents	\$ 772,785	\$ 760,086	\$ 1,532,871
Restricted Cash and cash equivalents	-	2,118,046	2,118,046
Prepaid items		36,481	36,481
Receivables, net	1,820,006	-	1,820,006
Restricted Receivables	-	221,267	221,267
Certificates of Deposit	-	279,594	279,594
Due from other funds	380,292	530,636	910,928
Notes Receivable	141,650	-	141,650
Total Assets	\$ 3,114,733	\$ 3,946,110	\$ 7,060,843
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accrued Liabilities	\$ 423,660	\$ 102,046	\$ 525,706
Due to other funds	-	576,774	576,774
Total Liabilities	423,660	678,820	1,102,480
 DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	272,653	37,197	309,850
Unavailable revenue - fines	258,916	-	258,916
Total Deferred Inflows of Resources	531,569	37,197	568,766
 Fund balances:			
Nonspendable:			
Notes receivables	141,650	-	141,650
Prepaid items		36,481	36,481
Restricted for:			
Economic development	-	1,036,459	1,036,459
Debt service	-	636,641	636,641
Capital projects	-	1,225,119	1,225,119
Public safety	-	106,739	106,739
Other purposes	-	16,184	16,184
Committed for:			
Community forest	-	56,552	56,552
Cemetery	-	204,346	204,346
Unassigned	2,017,854	(88,428)	1,929,426
Total Fund balances	2,159,504	3,230,093	5,389,597
Total Liabilities and Fund Balances	\$ 3,114,733	\$ 3,946,110	\$ 7,060,843

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, 2016

Total fund balances - governmental funds balance sheet	\$ 5,389,597
<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	2,157,237
Capital assets, depreciable	15,353,055
Deferred outflow of resources that are not available to pay for current period expenditures and, therefore, are deferred in the funds.	2,844,666
Deferred inflows of resources that are not due and payable in the current period and, therefore, are not reportable in the funds.	180,570
The assets and liabilities of the internal service funds are included in governmental activities in the SNA.	516,162
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Accrued liabilities	(137,181)
Noncurrent liabilities due in one year	(1,558,000)
Noncurrent liabilities due in more than one year	(17,583,827)
	7,162,279
Net position of governmental activities - statement of net assets	\$ 7,162,279

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, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenue:			
Taxes	\$ 11,565,539	\$ 1,357,464	\$ 12,923,003
Licenses, permits and fees	116,308	-	116,308
Intergovernmental	567,822	424,562	992,384
Charges for services	157,943	25,812	183,755
Fines and Forfeitures	567,885	43,647	611,532
Investment	35,172	416	35,588
Other revenues	83,027	81,746	164,773
Total revenues	<u>13,093,696</u>	<u>1,933,647</u>	<u>15,027,343</u>
Expenditures:			
General government	1,637,433	-	1,637,433
Public Safety	8,501,995	46,503	8,548,498
Community Services	3,525,390	96,765	3,622,155
Community Development	962,369	1,023,671	1,986,040
Debt service:			
Principal	-	890,000	890,000
Interest and fiscal charges	-	384,745	384,745
Total expenditures	<u>14,627,187</u>	<u>2,441,684</u>	<u>17,068,871</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,533,491)</u>	<u>(508,037)</u>	<u>(2,041,528)</u>
Other financing sources (uses):			
Transfers in	1,063,490	549,575	1,613,065
Transfers out	(151,200)	(317,085)	(468,285)
Total other financing sources (uses)	<u>912,290</u>	<u>232,490</u>	<u>1,144,780</u>
Net change in fund balances	(621,201)	(275,547)	(896,748)
Fund balances, October 1	<u>2,780,705</u>	<u>3,505,640</u>	<u>6,286,345</u>
Fund balances, September 30	<u>\$ 2,159,504</u>	<u>\$ 3,230,093</u>	<u>\$ 5,389,597</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, 2016

Net change in fund balances - total governmental funds	\$ (896,748)
<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	803,499
Depreciation	(1,378,991)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.</p>	
	(1,155)
<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	890,000
Interest expense	(1,584)
<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>	
	(583,805)
<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>	
	<u>(606,673)</u>
Change in net position of governmental activities - statement of activities	<u>\$ (1,775,457)</u>

See the accompanying Notes to Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental
	Water & Wastewater	Sanitation	Retail	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 3,190,143	\$ 932,730	\$ 641,563	\$ 4,764,436	\$ 422,756
Receivable (net)	753,506	349,102	7,288	1,109,896	-
Certificates of Deposit	400,000	-	-	400,000	-
Due from other funds	889,452	-	13,156	902,608	60,000
Total Current Assets	5,233,101	1,281,832	662,007	7,176,940	482,756
Noncurrent Assets:					
Cash and cash equivalents (restricted)	2,333,299	-	-	2,333,299	-
Certificates of Deposit	184,096	122,948	106,448	413,492	-
Capital Assets:					
Nondepreciable	85,586	20,281	1,733,346	1,839,213	-
Depreciable, net	24,907,766	-	1,618,274	26,526,040	1,732,260
Total Capital Assets	24,993,352	20,281	3,351,620	28,365,253	1,732,260
(Net of Accumulated Depreciation)	27,510,747	143,229	3,458,068	31,112,044	1,732,260
Total Noncurrent Assets	32,743,848	1,425,061	4,120,075	38,288,984	2,215,016
Total Assets	32,743,848	1,425,061	4,120,075	38,288,984	2,215,016
Deferred Outflows of Resources:					
Deferred Outflows related to Pensions	524,379	29,132	29,132	582,643	-
Total Deferred Outflows of Resources	524,379	29,132	29,132	582,643	-
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities	197,568	203,128	43,791	444,487	720,486
Due to other funds	-	1,135,462	-	1,135,462	161,300
Accrued interest payable	34,204	-	887	35,091	-
Water meter deposits - refundable	278,257	-	-	278,257	-
Long-term debt - due within one year	937,052	26,326	103,923	1,067,301	269,822
Total Current Liabilities	1,447,081	1,364,916	148,601	2,960,598	1,151,608
Noncurrent liabilities:					
Long-term debt - due in more than one year	9,249,786	68,315	435,035	9,753,136	547,246
Total noncurrent liabilities	9,249,786	68,315	435,035	9,753,136	547,246
Deferred Inflows of Resources:					
Deferred Inflows related to Pensions	71,377	3,976	3,976	79,329	-
Total Liabilities and Deferred Inflows of Resources	10,768,244	1,437,207	587,612	12,793,063	1,698,854
NET POSITION					
Net Investment in Capital Assets	17,388,993	20,281	2,913,797	20,323,071	915,192
Restricted for Debt Service	1,012,685	-	-	1,012,685	-
Unrestricted	4,098,305	(3,295)	647,798	4,742,808	(399,030)
Total Net Position	\$ 22,499,983	\$ 16,986	\$ 3,561,595	\$ 26,078,564	\$ 516,162

CITY OF PALESTINE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Water & Wastewater	Sanitation	Retail	Total	Internal Service Funds
OPERATING REVENUES:					
Charges for Services	\$ 7,254,897	\$ 3,414,943	\$ 618,223	\$ 11,288,063	\$ 2,864,194
Other revenues	661	-	-	661	-
Total Operating Revenues	<u>7,255,558</u>	<u>3,414,943</u>	<u>618,223</u>	<u>11,288,724</u>	<u>2,864,194</u>
OPERATING EXPENSES:					
Cost of sales and services	1,500,472	2,587,499	150,947	4,238,918	3,181,873
Personnel	2,741,211	102,799	103,930	2,947,940	-
Depreciation	1,664,729	-	100,414	1,765,143	298,500
Total Operating Expenses	<u>5,906,412</u>	<u>2,690,298</u>	<u>355,291</u>	<u>8,952,001</u>	<u>3,480,373</u>
Operating Income (Loss)	<u>1,349,146</u>	<u>724,645</u>	<u>262,932</u>	<u>2,336,723</u>	<u>(616,179)</u>
NON-OPERATING REVENUES					
(EXPENSES):					
Investment revenue	4,577	263	339	5,179	616
Interest expense	(232,004)	-	(21,834)	(253,838)	(15,917)
Total Non-operating Revenues					
(Expenses)	<u>(227,427)</u>	<u>263</u>	<u>(21,495)</u>	<u>(248,659)</u>	<u>(15,301)</u>
Income (Loss) before					
Contributions and Transfers	<u>1,121,719</u>	<u>724,908</u>	<u>241,437</u>	<u>2,088,064</u>	<u>(631,480)</u>
Transfer in	135,439	-	-	135,439	24,807
Transfers (out)	(854,415)	(350,226)	(100,385)	(1,305,026)	-
Change in net position	<u>402,743</u>	<u>374,682</u>	<u>141,052</u>	<u>918,477</u>	<u>(606,673)</u>
Net position, October 1	22,097,240	(357,696)	3,420,543	25,160,087	1,122,835
Net position, September 30	<u>\$ 22,499,983</u>	<u>\$ 16,986</u>	<u>\$ 3,561,595</u>	<u>\$ 26,078,564</u>	<u>\$ 516,162</u>

See the accompanying Notes to Financial Statements.

CITY OF PALESTINE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Water & Wastewater	Sanitation	Retail	Total	Internal Service Funds
Cash Flows from Operating Activities:					
Receipts from customers and users	\$ 7,460,076	\$ 3,433,020	\$ 621,885	\$ 11,514,981	\$ 2,874,956
Payments to suppliers	(1,434,990)	(2,406,992)	(159,563)	(4,001,545)	(2,755,865)
Payments to employees	(2,673,361)	(88,328)	(117,579)	(2,879,268)	-
Internal Activity - payments from other funds	-	467,940	136	468,076	34,555
Internal Activity - payments to other funds	(299,087)	-	-	(299,087)	(94,556)
Net Cash Provided (Used) by Operating Activities	3,052,638	1,405,640	344,879	4,803,157	59,090
Cash Flows from Noncapital Financing Activities:					
Transfer from other funds	135,439	-	-	135,439	24,807
Transfer to other funds	(854,415)	(350,226)	(100,385)	(1,305,026)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(718,976)	(350,226)	(100,385)	(1,169,587)	24,807
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(946,863)	-	(9,833)	(956,696)	(841,743)
Proceeds from capital debt	-	-	-	-	511,389
Principal paid on capital debt	(796,510)	-	(66,070)	(862,580)	(167,652)
Interest paid on capital debt	(235,165)	-	(22,023)	(257,188)	(14,630)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,978,538)	-	(97,926)	(2,076,464)	(512,636)
Cash Flows from Investing Activities:					
Interest received	4,577	263	339	5,179	616
Investment in Certificates of Deposit	(584,096)	(122,947)	(106,448)	(813,491)	-
Net Cash Provided by Investing Activities	(579,519)	(122,684)	(106,109)	(808,312)	616
Net Increase (Decrease) in Cash and Cash Equivalents	(224,395)	932,730	40,459	748,794	(428,123)
Beginning cash and cash equivalents	<u>\$ 5,747,837</u>	<u>\$ -</u>	<u>\$ 601,104</u>	<u>\$ 6,348,941</u>	<u>\$ 850,879</u>
Ending Cash and Cash Equivalents	<u>\$ 5,523,442</u>	<u>\$ 932,730</u>	<u>\$ 641,563</u>	<u>\$ 7,097,735</u>	<u>\$ 422,756</u>
Ending Cash and Cash Equivalents:					
Unrestricted cash and cash equivalents	3,190,143	932,730	641,563	4,764,436	422,756
Restricted cash and cash equivalents	2,333,299	-	-	2,333,299	-
	<u>\$ 5,523,442</u>	<u>\$ 932,730</u>	<u>\$ 641,563</u>	<u>\$ 7,097,735</u>	<u>\$ 422,756</u>

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, 2016

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service
	Water & Wastewater	Sanitation	Retail	Total	Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ 1,349,146	\$ 724,645	\$ 262,932	\$ 2,336,723	\$ (616,179)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,664,729	-	100,414	1,765,143	298,500
Changes in Operating Assets, Liabilities, and Deferred Inflows and Outflows:					
(Increase) Decrease in Current Assets and Deferred Outflows					
Accounts receivable	204,518	18,077	3,662	226,257	10,762
Due from other funds	(221,930)	-	136	(221,794)	-
Deferred Outflows	(466,469)	(27,748)	(27,748)	(521,965)	-
Increase (Decrease) in Current Liabilities and					
Due to other funds	(77,157)	467,940	-	390,783	(60,000)
Deferred Inflows	253,773	14,099	14,099	281,971	-
Accounts payable and accrued liabilities	346,210	208,627	(8,616)	546,221	426,007
Net Cash Provided by Operating Activities	\$ 3,052,820	\$ 1,405,640	\$ 344,879	\$ 4,803,339	\$ 59,090
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Borrowing under capital lease					
Total noncash investing, capital and financing activities:	\$ -	\$ -	\$ -	\$ -	\$ -

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Palestine Economic Development Corporation, 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, 2016

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: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

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

C. Government-Wide and Fund Financial Statements

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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, 2016

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.

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

D. Measurement Focus and Basis of Accounting

The government-wide 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, 2016

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
- U.S. and State guaranteed debt
- Certificates of Deposit (CDs)
- Collateralized bank accounts
- Obligations of the State of Texas

2. Receivables and Payables

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

4. Capital Assets, continued

As of September 30, 2016, the City has active construction projects. The projects include street construction and grit removal. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent To-Date</u>	<u>Estimated Remaining Commitment</u>
Fort Street	\$ 38,780	\$ 341,720
Grit Removal	38,744	734,500

5. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The Utilities Fund is used to report those proceeds of revenue bond issuances that are restricted for use in the water and sewer projects. The Utilities Fund is also used to segregate resources accumulated for debt service payments over the life of the bonds. The City also classifies other cash and cash equivalents as restricted because of the restrictions due to enabling legislation.

6. Compensated Employee Absences

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of bonds payable, 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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

7. Long-Term Obligations, continued

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.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has 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 is the difference between projected and actual investment earnings.

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.

9. Fund Equity

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

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

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

9. Fund Equity, continued

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

Assigned fund balance - represents amounts the City intends to use for specific purposes as expressed by the City Council. The City Council may also assign fund balance when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. This is the residual classification for all governmental funds other than the general fund.

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

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

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

10. 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.

11. 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.

12. 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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

13. 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, 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
Special Events	\$ 20,908
Health Insurance	\$ 645,450
Equitable Sharing Federal	
Forfeiture	\$ 527
Capital Projects	\$ 20,908

B. Expenditures Over Appropriations

The city's general government expenditures and general fund transfers were over budget by \$9,646 and \$30,000, respectively.

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 Fair Value</u>	<u>Maturity (Years)</u>	<u>Credit Risk</u>
TexPool	\$807,769	.15	AAAm
TexSTAR	\$8,501,638	.14	AAAm
Certificates of Deposit	\$1,100,000	1.73	

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, FDIC insurance covered \$250,000 and the remaining \$2,233,317 was insured by market values of pledged securities held by the pledging financial institution.

CITY OF PALESTINE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

A. Deposits and Investments, continued

Credit risk. As of September 30, 2016, 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 investments in certificates of deposit with staggered maturity dates and has 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.

Certificates of Deposits

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

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.

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, 2016 is \$141,650.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

C. Receivables

The following comprise receivable balances at year-end:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Water & Wastewater</u>	<u>Sanitation</u>	<u>Retail</u>
Receivables					
Ad valorem taxes	\$ 537,825	\$ 74,355	\$ -	\$ -	\$ -
Other Taxes	1,135,749	36,959	-	-	-
Other	28,655	140,434	-	-	-
Accounts	<u>1,214,835</u>	<u>2,964</u>	<u>840,551</u>	<u>545,575</u>	<u>7,288</u>
Gross receivables	2,917,064	254,712	840,551	545,575	7,288
Less: allowance for uncollectible	<u>1,097,058</u>	<u>33,445</u>	<u>87,045</u>	<u>196,473</u>	<u>-</u>
Net total receivables	<u>\$ 1,820,006</u>	<u>\$ 221,267</u>	<u>\$ 753,506</u>	<u>\$ 349,102</u>	<u>\$ 7,288</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 \$36,832. Monthly rental amounts range from \$33 to \$539. The terms of leases range from 48 months to 60 months.

Operating Leases –Lessor

The City has leasing arrangements with ten tenants in the City owned mall. The term of lease arrangements range from month to month to 60 months. Monthly rental amounts range from \$433 to \$15,265.

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

<u>Year</u>	<u>Amount</u>
2017	414,903
2018	389,906
2019	329,330
2020	158,602
2021	<u>35,424</u>
Total	<u>\$ 1,328,165</u>

Cost of mall, excluding city library in mall, \$4,004,957. Total amount of accumulated depreciation on mall at year-end was \$653,337.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 2,118,457	\$ -	\$ -	\$ 2,118,457
Construction in progress	-	38,780	-	38,780
Total capital assets not being depreciated	2,118,457	38,780	-	2,157,237
Capital assets, being depreciated:				
Buildings	5,488,026	-	-	5,488,026
Improvements	10,288,956	46,308	-	10,335,264
Machinery and equipment	9,565,350	1,503,585	(17,135)	11,051,800
Infrastructure	32,029,616	56,568	-	32,086,184
Total capital assets being depreciated	57,371,948	1,606,461	(17,135)	58,961,274
Less accumulated depreciation:				
Buildings	(4,209,126)	(67,231)	-	(4,276,357)
Improvements	(6,788,626)	(392,196)	-	(7,180,822)
Machinery and equipment	(7,526,799)	(455,505)	17,135	(7,965,169)
Infrastructure	(21,691,052)	(762,559)	-	(22,453,611)
Total accumulated depreciation	(40,215,603)	(1,677,491)	17,135	(41,875,959)
Total capital assets being depreciated, net	17,156,345	(71,030)	-	17,085,315
Governmental activities capital assets, net	\$ 19,274,802	\$ (32,250)	\$ -	\$ 19,242,552
Governmental activities capital assets, net				\$ 19,242,552
Less associated debt				(10,244,066)
Net Investment in Capital Assets				\$ 8,998,486

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 87,042
Public Safety	167,163
Community Development	984,389
Community Service	438,897
Total depreciation expenses - governmental activities	\$ 1,677,491

The PEDC reported land of \$1,001,867 and depreciable capital assets net of accumulated depreciation \$3,062,082 at year-end.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

E. Capital Assets, continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,800,468	\$ -	\$ -	\$ 1,800,468
Construction in progress	-	38,745	-	38,745
Total capital assets not being depreciated	1,800,468	38,745	-	1,839,213
Capital assets, being depreciated:				
Buildings	10,374,717	20,500	-	10,395,217
Machinery and equipment	383,386	215,997	-	599,383
Infrastructure	45,687,225	681,454	-	46,368,679
Total capital assets being depreciated	56,445,328	917,951	-	57,363,279
Less accumulated depreciation:				
Buildings	(7,244,365)	(241,453)	-	(7,485,818)
Machinery and equipment	(170,443)	(48,462)	-	(218,905)
Infrastructure	(21,657,288)	(1,475,228)	-	(23,132,516)
Total accumulated depreciation	(29,072,096)	(1,765,143)	-	(30,837,239)
Total capital assets being depreciated, net	27,373,232	(847,192)	-	26,526,040
Business-type activities capital assets, net	\$ 29,173,700	\$ (808,447)	\$ -	\$ 28,365,253
Business-type activities, capital assets, net				\$ 28,365,253
Less associated debt				(9,072,823)
Unspent proceeds of capital related debt				1,030,641
Net Investment in Capital Assets				\$ 20,323,071
Business-type activities:				
Water and wastewater				\$ 1,664,729
Retail				100,414
Total depreciation expenses - business-type activities				\$ 1,765,143

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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	\$ 10,317,000	\$ -	\$ 890,000	\$ 9,427,000 *	\$ 708,000
Capital leases	473,329	511,389	167,652	817,066 *	269,822
Compensated absences	1,157,318	1,090,375	812,194	1,435,499	850,000
Net Pension Liability	6,148,111	3,901,000	2,333,833	7,715,278	-
Net OPEB obligation	502,805	94,967	33,720	564,052	-
Governmental activities					
Long - term liabilities	<u>\$ 18,598,563</u>	<u>\$ 5,597,731</u>	<u>\$ 4,237,399</u>	<u>\$ 19,958,895</u>	<u>\$ 1,827,822</u>
Long-term debt due in more than a year				<u>\$ 18,131,073</u>	
* Debt associated with capital assets				<u>\$ 10,244,066</u>	
Business type activities:					
Revenue Bonds	\$ 6,701,452	\$ -	\$ 623,629	\$ 6,077,823 *	\$ 639,945
Certificate of obligation	3,250,000	-	255,000	2,995,000 *	265,000
Net Pension Liability	1,259,252	798,959	477,974	1,580,237	-
Compensated absences	130,646	193,254	156,523	167,377	162,356
Business-type activities					
Long - term liabilities	<u>\$ 11,341,350</u>	<u>\$ 992,213</u>	<u>\$ 1,513,126</u>	<u>\$ 10,820,437</u>	<u>\$ 1,067,301</u>
Long-term debt due in more than a year				<u>\$ 9,753,136</u>	
* Debt associated with capital assets				<u>\$ 9,072,823</u>	
PEDC					
Notes	<u>\$ 3,075,000</u>	<u>\$ 525,000</u>	<u>\$ 385,000</u>	<u>\$ 3,215,000</u>	<u>\$ 390,000</u>
	<u>\$ 3,075,000</u>	<u>\$ 525,000</u>	<u>\$ 385,000</u>	<u>\$ 3,215,000</u>	<u>\$ 390,000</u>
Long-term debt due in more than a year				<u>\$ 2,825,000</u>	

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

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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

F. Long – Term Debt, continued

The PEDC notes payable have outstanding balances of \$570,000, \$2,150,000 and \$495,000 and interest rates of 1.70%, 3.35% and 3.63%, respectively.

Long-term debt was comprised of following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
Governmental Activities		
Certificate of obligation		
Series 2008	3.874%	1,400,000
Series 2010A Taxable	6.75%	1,800,000
Series 2010 B	4.125%	3,095,000
Series 2010 A Non taxable	5.25%	862,000
Series 2014	1.75%	2,270,000
Total Governmental Activities Long-term Debt		<u>\$ 9,427,000</u>
Business-Type Activities		
Water and sewer, series 2003	.035-3.10%	1,955,000
Water and sewer, series 2006	2.20-4.20%	455,000
Water and sewer, series 2007	2.40-4.60%	2,805,000
Water and sewer, series 2009	.015-4.125%	425,000
Lease Revenue - Taxable	6.50%	437,823
Certificate of obligation 2011 refunding	2%	275,000
General Obligation 2012 refunding	1.58%	400,000
Certificate of obligation 2013 refunding	2.15%	2,320,000
Total Business-Type Activities Long-term Debt		<u>\$ 9,072,823</u>

The City has pledged property tax revenue for the Certificate of Obligations in the amount of \$15,370,202, water and sewer revenue for the Revenue Bonds in the amount of \$6,478,552, and mall lease revenue in the amount of \$498,849. Total pledged revenue recognized during the fiscal year amounted to \$8,730,173. The principal and interest paid on the related debt was 2,409,890.

The City incurred and charged to expense \$657,178 in interest expense for the fiscal year ended September 30, 2016.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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
2017	708,000	323,410	639,945	172,811	265,000	57,661
2018	730,000	302,920	661,620	154,723	280,000	52,524
2019	753,000	281,683	688,759	131,411	300,000	47,316
2020	1,083,000	256,478	827,499	114,963	385,000	39,614
2021	1,118,000	226,137	730,000	92,353	170,000	36,120
2022-2027	2,675,000	1,013,041	2,125,000	215,719	1,055,000	103,952
2028-2030	2,360,000	195,481	405,000	17,598	540,000	11,865
	<u>\$ 9,427,000</u>	<u>\$ 2,599,150</u>	<u>\$ 6,077,823</u>	<u>\$ 899,578</u>	<u>\$ 2,995,000</u>	<u>\$ 349,052</u>

Year Ending September 30,	PEDC	
	Notes	
	Principal	Interest
2017	390,000	99,683
2018	420,000	88,713
2019	425,000	77,320
2020	330,000	63,585
2021	280,000	53,100
2022-2027	1,370,000	113,066
	<u>\$ 3,215,000</u>	<u>\$ 495,467</u>

Year Ending September 30,	Governmental Activities	
	Capital Leases	
	Principal	Interest
2017	269,822	22,160
2018	186,908	14,325
2019	148,785	10,495
2020	104,537	5,014
2021	107,014	2,536
	<u>\$ 817,066</u>	<u>\$ 54,530</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.

Cash in the amount of \$1,649,326 was restricted at September 30, 2016 in order to fund the City's annual debt service requirements and to meet the debt service reserve fund requirements of bond covenants.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

G. Interfund Transactions

The interfund balance in the Nonmajor Governmental Funds resulted from overdrafts in the City's pooled cash accounts. The compositions of interfund balances as of year- end were as follows:

	Payable			
	Total	Nonmajor Governmental	Internal Service	Sanitation
Receivable				
General	\$ 380,292	\$ 111,503	\$ 22,779	\$ 246,010
Nonmajor governmental	530,636	392,115	138,521	-
Internal Service	60,000	60,000	-	-
Retail	13,156	13,156	-	-
Water &Wastewater	889,452	-	-	889,452
Total	<u>\$ 1,873,536</u>	<u>\$ 576,774</u>	<u>\$ 161,300</u>	<u>\$ 1,135,462</u>

	Transfers in				
	Total	General	Nonmajor Governmental	Water & Wastewater	Internal Service
Transfer out					
General	\$ 151,200	\$ -	\$ 54,768	\$ 71,625	\$ 24,807
Nonmajor governmental	317,085	71,277	245,808	-	-
Water &Wastewater	854,415	654,656	199,759	-	-
Sanitation	350,226	286,412	-	63,814	-
Retail	100,385	51,145	49,240	-	-
Total transfers	<u>\$ 1,773,311</u>	<u>\$ 1,063,490</u>	<u>\$ 549,575</u>	<u>\$ 135,439</u>	<u>\$ 24,807</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	\$ 12,171
Community beautification	4,013
Total restricted for other purposes	<u>\$ 16,184</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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:

	9/30/2016	9/30/2015
Beginning claims payable	\$ 275,048	\$ 262,719
Claims incurred	2,179,940	1,782,648
Claims incurred but not reported	275,048	263,174
Claims paid	(2,024,881)	(2,033,493)
Ending claims payable	\$ 705,155	\$ 275,048

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, 2016

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.tmr.com.

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City 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, 2016

IV. OTHER INFORMATION, CONTINUED

C. Pension Plans - Texas Municipal Retirement System, continued

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	142
Inactive employees entitled to but not yet receiving benefits	106
Active employees	169
Total employees receiving benefits	417

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 14.94% and 14.13%, respectively, in each calendar year 2015 and 2016. The City's contributions to TMRS for the fiscal year ended September 30, 2016, were \$1,688,279 and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality 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, 2016

IV. OTHER INFORMATION, CONTINUED

C. Pension Plans - Texas Municipal Retirement System, continued

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 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 2015 valuation.

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

IV. OTHER INFORMATION, CONTINUED

C. Pension Plans - Texas Municipal Retirement System, continued

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 40,691,724	\$ 33,284,361	\$ 7,407,363
Changes for the Year:			
Service Cost	997,344	-	997,344
Interest	2,808,849	-	2,808,849
Change in Benefit terms	-	-	-
Difference Between Expected and Actual Experience	(459,275)	-	(459,275)
Change of Assumptions	154,385	-	154,385
Contributions - Employer	-	1,152,496	(1,152,496)
Contributions - Employee	-	442,936	(442,936)
Net Investment Income	-	49,110	(49,110)
Benefit Payments, Including Refunds of Employee Contributions	(2,127,959)	(2,127,959)	-
Administrative Expense	-	(29,915)	29,915
Other Changes	-	(1,478)	1,478
Net Changes	1,373,344	(514,810)	1,888,154
Balance at 12/31/2015	\$ 42,065,068	\$ 32,769,551	\$ 9,295,517

Plan fiduciary net position as a percentage of the total pension liability is 77.90%.

The Net Pension Liability as a percentage of the City's covered employee payroll of \$7,382,264 is 125.92%.

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 15,353,500	\$ 9,295,516	\$ 4,376,789

Pension Plan Fiduciary Net Position

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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, 2016, the City recognized pension expense of \$1,435,252.

At September 30, 2016, 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	\$ -	\$ 467,524
Changes in Actuarial Assumptions	110,896	-
Difference Between Projected and Actual Investment Earnings	2,070,175	-
Contributions Subsequent to the Measurement Date	1,246,238	-
Total	\$ 3,427,309	\$ 467,524

\$1,246,238 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, 2016. 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	\$ 369,386
2017	397,236
2018	490,766
2019	456,159
Total	\$ 1,713,547

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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 \$33,721 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, 2015, the actuarial value of plan assets is zero dollars, the actuarial accrued liability is \$775,904, the total underfunded actuarial liability is \$775,904, 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 \$96,470. 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, 2016

IV. OTHER INFORMATION, CONTINUED

D. Other Post Employment Benefits, continued

Three-Year Contribution Information

<u>Year Ending September 30,</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Req. Contrib. (ARC)	\$ 96,470	\$ 92,606	\$ 104,891
Adjustment To ARC	(22,872)	(19,560)	(16,497)
Interest on net OPEB obligation	21,369	18,596	15,967
Contributions Made	<u>(33,721)</u>	<u>(26,393)</u>	<u>(42,496)</u>
Increase in NOO	61,246	65,249	61,865
Beginning OPEB Obligation	<u>502,805</u>	<u>437,556</u>	<u>375,691</u>
Ending OPEB Obligation	<u>\$ 564,051</u>	<u>\$ 502,805</u>	<u>\$ 437,556</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
9/30/2016	94,967	33,721	35.51%	564,051

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, 2016

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, 2016, 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, 2016, 2015 and 2014 were \$6,752, \$5,298 and \$4,954, respectively, which equaled the required contribution each year.

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

	<u>9/30/16</u>	<u>9/30/15</u>	<u>9/30/14</u>
Annual Req. Contrib. (ARC)	0.08%	0.07%	0.07%
Actual Contributions Made	0.08%	0.07%	0.07%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

IV. OTHER INFORMATION, CONTINUED

E. Subsequent Events

On January 30, 2017, the City entered into two finance contracts with Government Capital Corporation for the purpose of financing vehicles, radios, and related equipment. The first contract is for \$373,247, interest rate of 2.865%, and payable over three years with annual payments of \$127,946. The second contract is for \$598,579, with an interest rate of 3.247%, and payable over ten years with annual payments of \$68,824.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PALESTINE, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenue:				
Taxes				
Property taxes	\$ 5,563,088	\$ 5,563,088	\$ 5,434,693	\$ (128,395)
Business franchise taxes	1,011,000	1,011,000	1,027,661	16,661
City sales taxes	5,652,994	5,652,994	5,103,185	(549,809)
Licenses, Permits and Fees	86,000	71,000	116,308	45,308
Intergovernmental Revenues	331,797	429,169	567,822	138,653
Charges for Services	59,497	59,497	157,943	98,446
Fines and Forfeitures	411,363	411,363	567,885	156,522
Investment	13,500	13,500	35,172	21,672
Other Revenues	410,218	350,400	83,027	(267,373)
Total Revenues	<u>13,539,457</u>	<u>13,562,011</u>	<u>13,093,696</u>	<u>(468,315)</u>
Expenditures:				
General Government	1,627,787	1,627,787	1,637,433	(9,646)
Public Safety	8,050,946	8,585,946	8,501,995	83,951
Community Services	3,699,168	3,699,168	3,525,390	173,778
Community Development	1,106,582	1,106,582	962,369	144,213
Total Expenditures	<u>14,484,483</u>	<u>15,019,483</u>	<u>14,627,187</u>	<u>392,296</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(945,026)</u>	<u>(1,457,472)</u>	<u>(1,533,491)</u>	<u>(76,019)</u>
Other Financing Sources (Uses):				
Operating Transfers In	1,033,129	1,033,129	1,063,490	30,361
Operating Transfers Out	(121,200)	(121,200)	(151,200)	(30,000)
Total Other Financing Sources (Uses)	<u>911,929</u>	<u>911,929</u>	<u>912,290</u>	<u>361</u>
Net Change in Fund Balance	<u>(33,097)</u>	<u>(545,543)</u>	<u>(621,201)</u>	<u>\$ (75,658)</u>
Fund Balances, October 1			<u>2,780,705</u>	
Fund Balances, September 30			<u>\$ 2,159,504</u>	

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, 2015

Total Pension Liability	<u>12/31/2014</u>	<u>12/31/2015</u>
Service Cost	\$ 938,602	\$ 997,344
Interest (on the Total Pension Liability)	2,720,857	2,808,849
Changes in benefits terms	-	-
Difference between expected and actual experience	(303,094)	(459,275)
Change in assumptions	-	154,385
Benefit payments, including refunds of employee contributions	<u>(2,129,464)</u>	<u>(2,127,959)</u>
Net change in Total Pension Liability	1,226,901	1,373,344
Total Pension Liability - Beginning	<u>39,464,823</u>	<u>40,691,724</u>
Total Pension Liability - Ending (a)	<u>\$40,691,724</u>	<u>\$ 42,065,068</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 1,185,438	\$ 1,152,496
Contributions - employee	454,154	442,936
Net investment income	1,828,420	49,110
Benefit payments, including refunds of employee contributions	(2,129,464)	(2,127,959)
Administrative expense	(19,092)	(29,915)
Other	<u>(1,570)</u>	<u>(1,478)</u>
Net Change in Plan Fiduciary Net Position	1,317,886	(514,810)
Plan Fiduciary Net Position, Beginning	<u>31,966,475</u>	<u>33,284,361</u>
Plan Fiduciary Net Position, Ending (b)	<u>\$33,284,361</u>	<u>\$ 32,769,551</u>
Net Pension Liability- ending (a) - (b)	7,407,363	9,295,517
Plan Fiduciary Net Position as a percentage of Total Pension Liability	81.80%	77.90%
Covered employee payroll	\$ 7,569,229	\$ 7,382,264
Net Pension Liability as a percentage of covered payroll	97.86%	125.92%

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, 2016

	2014	2015
Actuarially Determined Contribution	\$ 1,185,438	\$ 1,688,279
Contributions in Relation to the Actuarially Determined Contribution	1,185,438	1,688,279
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll	7,604,892	8,565,760
Contributions as a Percentage of Covered Employee Payroll	15.66%	19.71%

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	30 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50 %, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

CITY OF PALESTINE, TEXAS

SCHEDULE OF FUNDING PROGRESS (1) POST-EMPLOYMENT HEALTHCARE BENEFITS September 30, 2016

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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%	\$ 7,077,841	14.42%
9/30/2015	10/1/2014	\$ -	\$ 717,157	\$ 717,157	0%	\$ 7,604,892	9.43%
9/30/2016	10/1/2014	\$ -	\$ 775,904	\$ 775,904	0%	\$ 8,565,760	9.06%

(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, 2016

Economic Development Grant Fund

Tourism and Civic Center Fund

Airport Fund

Cemetery Fund

Municipal Court Security and Technology Funds

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

Special Grants 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, 2016

	Special Revenue Funds				
	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security
	Grant	Center	Airport	Cemetery	Security
ASSETS					
Current Assets					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 176,017	\$ -
Restricted cash and cash equivalents	400,850	545,515	-	-	27,365
Prepaid items	-	-	-	-	-
Restricted Receivables	-	39,924	-	-	-
Due from other funds	-	-	-	-	-
Certificates of Deposit	-	72,524	-	28,329	-
Total Assets	\$ 400,850	\$ 657,963	\$ -	\$ 204,346	\$ 27,365
LIABILITIES					
Accounts Payable	\$ -	\$ 22,354	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total Liabilities	-	22,354	-	-	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-
FUND BALANCES					
Nonspendable:					
Notes receivables	-	-	-	-	-
Restricted for:					
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Public safety	-	-	-	-	27,365
Community Services	-	-	-	-	-
Economic Development	400,850	635,609	-	-	-
Committed for:					
Community forest	-	-	-	-	-
Cemetery	-	-	-	204,346	-
Unassigned	-	-	-	-	-
Total Fund Balances	400,850	635,609	-	204,346	27,365
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 400,850	\$ 657,963	\$ -	\$ 204,346	\$ 27,365

<u>Municipal</u> <u>Court</u> <u>Technology</u>	<u>Carnegie</u> <u>Library</u> <u>Memorial</u>	<u>Tobacco</u> <u>Grant</u>	<u>Equitable</u> <u>Sharing</u> <u>Federal</u> <u>Forfeitures</u>	<u>Police</u> <u>Confiscated</u> <u>Money</u>	<u>Loop 256</u> <u>Tree</u> <u>Project</u>
\$ -	\$ 12,171	\$ 3,933	\$ -	\$ -	\$ -
18,066	-	-	63	75,052	44
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 18,066</u>	<u>\$ 12,171</u>	<u>\$ 3,933</u>	<u>\$ 63</u>	<u>\$ 75,052</u>	<u>\$ 44</u>
\$ -	\$ -	\$ 910	\$ 590	\$ 37,070	\$ -
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>910</u>	<u>590</u>	<u>37,070</u>	<u>-</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
18,066	-	3,023	-	37,982	-
-	12,171	-	-	-	44
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(527)	-	-
<u>18,066</u>	<u>12,171</u>	<u>3,023</u>	<u>(527)</u>	<u>37,982</u>	<u>44</u>
<u>\$ 18,066</u>	<u>\$ 12,171</u>	<u>\$ 3,933</u>	<u>\$ 63</u>	<u>\$ 75,052</u>	<u>\$ 44</u>

CITY OF PALESTINE, TEXAS

COMBINING BALANCE SHEET (Page 2 of 2)

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	Special Revenue Funds				
	Community Forest	Home Program	Fire Prevention	PD Grants	Special Events
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 4,086	\$ 113,969	\$ 17,901	\$ -	\$ -
Restricted cash and cash equivalents	-	-	-	5,198	-
Prepaid items					36,481
Restricted Receivables	-	-	-	-	-
Due from other funds	44,374	-	-	-	-
Certificates of Deposit	8,092	-	-	-	-
Total Assets	\$ 56,552	\$ 113,969	\$ 17,901	\$ 5,198	\$ 36,481
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 2,146	\$ 650	\$ 22,619
Due to other funds	-	110,000	-	-	44,374
Total Liabilities	-	110,000	2,146	650	66,993
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-
FUND BALANCES					
Nonspendable:					
Prepaid items	-	-	-	-	36,481
Restricted for:					
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Public safety	-	-	15,755	4,548	-
Community Services	-	3,969	-	-	-
Economic Development	-	-	-	-	-
Committed for:					
Community forest	56,552	-	-	-	-
Cemetery	-	-	-	-	-
Unassigned	-	-	-	-	(66,993)
Total Fund Balances	56,552	3,969	15,755	4,548	(30,512)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 56,552	\$ 113,969	\$ 17,901	\$ 5,198	\$ 36,481

Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
	Sanderson Farms Project	Library Project	Water Capital Projects	Capital Projects	
\$ -	\$ -	\$ 66,310	\$ -	\$ 365,699	\$ 760,086
479,353	566,540			-	2,118,046
					36,481
40,909	117,934	-	-	22,500	221,267
77,156	409,106	-	-	-	530,636
76,420	94,229	-	-	-	279,594
<u>\$ 673,838</u>	<u>\$ 1,187,809</u>	<u>\$ 66,310</u>	<u>\$ -</u>	<u>\$ 388,199</u>	<u>\$ 3,946,110</u>
\$ -	\$ 15,707	\$ -	\$ -	\$ -	\$ 102,046
-	-	13,293	-	409,107	576,774
-	15,707	13,293	-	409,107	678,820
37,197	-	-	-	-	37,197
<u>37,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,197</u>
-	-	-	-	-	36,481
-	1,172,102	53,017	-	-	1,225,119
636,641	-	-	-	-	636,641
-	-	-	-	-	106,739
-	-	-	-	-	16,184
-	-	-	-	-	1,036,459
-	-	-	-	-	56,552
-	-	-	-	-	204,346
-	-	-	-	(20,908)	(88,428)
<u>636,641</u>	<u>1,172,102</u>	<u>53,017</u>	<u>-</u>	<u>(20,908)</u>	<u>3,230,093</u>
<u>\$ 673,838</u>	<u>\$ 1,187,809</u>	<u>\$ 66,310</u>	<u>\$ -</u>	<u>\$ 388,199</u>	<u>\$ 3,946,110</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, 2016

Special Revenue Funds

	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security	Municipal Court Technology
Revenues:						
Taxes	\$ -	\$ 501,072	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	6,750	-	-
Fines and forfeitures	-	-	-	-	7,176	9,569
Rentals	-	19,062	-	-	-	-
Investment revenue	-	111	10	36	5	3
Other revenue	-	1,240	-	-	-	-
Total revenues	<u>-</u>	<u>521,485</u>	<u>10</u>	<u>6,786</u>	<u>7,181</u>	<u>9,572</u>
Expenditures:						
Current						
Public Safety	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Community Development	-	473,973	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>473,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-	47,512	10	6,786	7,181	9,572
Other financing sources (uses):						
Transfers in	-	49,575	-	-	-	-
Transfers out	-	(40,916)	(50,886)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>8,659</u>	<u>(50,886)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	56,171	(50,876)	6,786	7,181	9,572
Fund balances, October 1	400,850	579,438	50,876	197,560	20,184	8,494
Fund balances, September 30	<u>\$ 400,850</u>	<u>\$ 635,609</u>	<u>\$ -</u>	<u>\$ 204,346</u>	<u>\$ 27,365</u>	<u>\$ 18,066</u>

Carnegie Library Memorial	Tobacco Grant	Equitable Sharing Federal Forfeitures	Police Confiscated Money	Loop 256 Tree Project
\$ -	\$ -	\$ -	\$ -	\$ -
-	6,375	-	-	-
-	-	-	-	-
-	-	8,403	18,499	-
-	-	-	-	-
-	-	13	-	-
667	-	-	-	-
<u>667</u>	<u>6,375</u>	<u>8,416</u>	<u>18,499</u>	<u>-</u>
-	6,846	16,150	10,000	-
1,414	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>1,414</u>	<u>6,846</u>	<u>16,150</u>	<u>10,000</u>	<u>-</u>
(747)	(471)	(7,734)	8,499	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(747)	(471)	(7,734)	8,499	-
12,918	3,494	7,207	29,483	44
<u>\$ 12,171</u>	<u>\$ 3,023</u>	<u>\$ (527)</u>	<u>\$ 37,982</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, 2016

	Special Revenue Funds				
	Community Forest	Home Program	Fire Prevention	PD Grants	Special Events
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	207,489	-	12,728	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Rentals	-	-	-	-	-
Investment revenue	-	-	6	-	-
Miscellaneous revenue	-	-	15,000	-	64,839
Total revenues	-	207,489	15,006	12,728	64,839
Expenditures:					
Current					
Public Safety	-	-	2,146	11,361	-
Community Services	-	-	-	-	95,351
Community Development	-	202,560	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-
Total expenditures	-	202,560	2,146	11,361	95,351
Excess (deficiency) of revenues over (under) expenditures	-	4,929	12,860	1,367	(30,512)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	4,929	12,860	1,367	(30,512)
Fund balances, October 1	56,552	(960)	2,895	3,181	-
Fund balances, September 30	\$ 56,552	\$ 3,969	\$ 15,755	\$ 4,548	\$ (30,512)

Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
	Sanderson Farms Project	Library Project	Water Capital Projects	Capital Projects	
\$ 856,392	\$ -	\$ -	\$ -	\$ -	\$ 1,357,464
-	159,190	-	-	38,780	424,562
-	-	-	-	-	6,750
-	-	-	-	-	43,647
-	-	-	-	-	19,062
66	-	166	-	-	416
-	-	-	-	-	81,746
<u>856,458</u>	<u>159,190</u>	<u>166</u>	<u>-</u>	<u>38,780</u>	<u>1,933,647</u>
-	-	-	-	-	46,503
-	-	-	-	-	96,765
-	287,450	-	-	59,688	1,023,671
890,000	-	-	-	-	890,000
384,745	-	-	-	-	384,745
<u>1,274,745</u>	<u>287,450</u>	<u>-</u>	<u>-</u>	<u>59,688</u>	<u>2,441,684</u>
(418,287)	(128,260)	166	-	(20,908)	(508,037)
500,000	-	-	-	-	549,575
-	-	-	(225,283)	-	(317,085)
<u>500,000</u>	<u>-</u>	<u>-</u>	<u>(225,283)</u>	<u>-</u>	<u>232,490</u>
81,713	(128,260)	166	(225,283)	(20,908)	(275,547)
554,928	1,300,362	52,851	225,283	-	3,505,640
<u>\$ 636,641</u>	<u>\$ 1,172,102</u>	<u>\$ 53,017</u>	<u>\$ -</u>	<u>\$ (20,908)</u>	<u>\$ 3,230,093</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, 2016

TOURISM AND CIVIC CENTER				
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes	\$ 492,000	\$ 492,000	\$ 501,072	\$ 9,072
Rentals	14,000	14,000	19,062	5,062
Interest	-	-	111	111
Other	-	-	1,240	1,240
Total revenues	506,000	506,000	521,485	15,485
Expenditures:				
Community Development	555,459	555,459	473,973	81,486
Total expenditures	555,459	555,459	473,973	81,486
Excess (deficiency) of revenues over (under) expenditures	(49,459)	(49,459)	47,512	96,971
Other financing sources (uses)				
Transfers in	49,575	49,575	49,575	-
Total other financing sources (uses)	49,575	49,575	8,659	(40,916)
Net change in fund balance	\$ 116	\$ 116	56,171	\$ 56,055
Fund balances, October 1			579,438	
Fund balances, September 30			\$ 635,609	

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, 2016

	CEMETERY			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Charges for services	\$ 12,000	\$ 12,000	\$ 6,750	\$ (5,250)
Interest	-	-	36	36
Total revenues	12,000	12,000	6,786	(5,214)
Expenditures:				
Community Services	16,000	16,000	-	16,000
Total expenditures	16,000	16,000	-	16,000
Excess (deficiency) of revenues over (under) expenditures	(4,000)	(4,000)	6,786	10,786
Net change in fund balance	\$ (4,000)	\$ (4,000)	6,786	\$ 10,786
Fund balances, October 1			197,560	
Fund balances, September 30			\$ 204,346	

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, 2016

	DEBT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 878,368	\$ 878,368	\$ 856,392	\$ (21,976)
Interest	75	75	66	(9)
Total revenues	<u>878,443</u>	<u>878,443</u>	<u>856,458</u>	<u>(21,985)</u>
Debt Service:				
Principal	890,000	890,000	890,000	-
Interest and fiscal charges	385,682	385,682	384,745	937
Total expenditures	<u>1,275,682</u>	<u>1,275,682</u>	<u>1,274,745</u>	<u>937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(397,239)</u>	<u>(397,239)</u>	<u>(418,287)</u>	<u>(21,048)</u>
Other financing sources (uses)				
Transfers in	500,000	500,000	500,000	-
Total other financing sources (uses)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Net change in fund balance	<u>\$ 102,761</u>	<u>\$ 102,761</u>	81,713	<u>\$ (21,048)</u>
Fund balances, October 1			<u>554,928</u>	
Fund balances, September 30			<u>\$ 636,641</u>	

CITY OF PALESTINE, TEXAS
INTERNAL SERVICE FUNDS
September 30, 2016

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, 2016

ASSETS	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
Current Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 169,247	\$ 78,409
Due from other funds	-	60,000	-	-
Total current assets	<u>-</u>	<u>60,000</u>	<u>169,247</u>	<u>78,409</u>
Noncurrent Assets:				
Capital Assets (net)	-	-	-	1,732,260
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,732,260</u>
Total assets	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 169,247</u>	<u>\$ 1,810,669</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ -	\$ 705,450	\$ -	\$ 15,036
Due to other funds	-	-	161,300	-
Long-term liabilities - due less than a year	-	-	-	269,822
Total current liabilities	<u>-</u>	<u>705,450</u>	<u>161,300</u>	<u>284,858</u>
Noncurrent liabilities				
Long-term liabilities - due more than a year	-	-	-	547,246
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>547,246</u>
Total Liabilities	-	705,450	161,300	832,104
NET POSITION				
Invested in capital assets, net of related debt	-	-	-	915,192
Unrestricted	-	(645,450)	7,947	63,373
Total net position	<u>-</u>	<u>(645,450)</u>	<u>7,947</u>	<u>978,565</u>
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 169,247</u>	<u>\$ 1,810,669</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 175,100	\$ 422,756
<u>-</u>	<u>60,000</u>
<u>175,100</u>	<u>482,756</u>
-	1,732,260
-	1,732,260
<u>\$ 175,100</u>	<u>\$ 2,215,016</u>
\$ -	\$ 720,486
-	161,300
<u>-</u>	<u>269,822</u>
<u>-</u>	<u>1,151,608</u>
-	547,246
-	547,246
-	1,698,854
-	915,192
<u>175,100</u>	<u>(399,030)</u>
<u>175,100</u>	<u>516,162</u>
<u>\$ 175,100</u>	<u>\$ 2,215,016</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, 2016

	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
OPERATING REVENUES:				
Charges for Services and Sales	\$ -	\$ 2,598,740	\$ 110,936	\$ 154,518
Total Operating Revenues	<u>-</u>	<u>2,598,740</u>	<u>110,936</u>	<u>154,518</u>
OPERATING EXPENSES:				
Cost of Services	-	3,039,137	113,531	9,064
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>298,500</u>
Total Operating Expenses	<u>-</u>	<u>3,039,137</u>	<u>113,531</u>	<u>307,564</u>
Operating Income (loss)	<u>-</u>	<u>(440,397)</u>	<u>(2,595)</u>	<u>(153,046)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest revenue	-	603	-	13
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,917)</u>
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>603</u>	<u>-</u>	<u>(15,904)</u>
Net Income (Loss) before transfers	<u>-</u>	<u>(439,794)</u>	<u>(2,595)</u>	<u>(168,950)</u>
Transfer in	24,807	-	-	-
Transfer out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>24,807</u>	<u>(439,794)</u>	<u>(2,595)</u>	<u>(168,950)</u>
Net position, October 1	<u>(24,807)</u>	<u>(205,656)</u>	<u>10,542</u>	<u>1,147,515</u>
Net position, September 30	<u>\$ -</u>	<u>\$ (645,450)</u>	<u>\$ 7,947</u>	<u>\$ 978,565</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ -	\$ 2,864,194
<u>-</u>	<u>2,864,194</u>
20,141	3,181,873
<u>-</u>	<u>298,500</u>
<u>20,141</u>	<u>3,480,373</u>
<u>(20,141)</u>	<u>(616,179)</u>
-	616
<u>-</u>	<u>(15,917)</u>
<u>-</u>	<u>(15,301)</u>
<u>(20,141)</u>	<u>(631,480)</u>
-	24,807
<u>-</u>	<u>-</u>
<u>(20,141)</u>	<u>(606,673)</u>
195,241	1,122,835
<u>\$ 175,100</u>	<u>\$ 516,162</u>

CITY OF PALESTINE, TEXAS

COMBINING STATEMENT OF CASH FLOWS

ALL INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	CENTRAL WAREHOUSE	HEALTH INSURANCE	WORKERS' COMPENSATION
Cash Flows from Operating Activities:			
Cash Received from Interfund services provided	\$ 10,762	\$ 2,598,740	\$ 110,936
Cash Payments to Other Suppliers for Goods and Services	(1,013)	(2,612,116)	(113,531)
Internal Activity-payments from other funds	-	-	34,555
Internal Activity-payments to other funds	(34,556)	(60,000)	-
Net Cash Provided (Used) by Operating Activities	(24,807)	(73,376)	31,960
Cash Flows from Non-Capital Financing Activities:			
Transfer from (to) other funds	24,807	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	24,807	-	-
Cash Flows from Capital and Related Financing Activities:			
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	-	-	-
Cash Flows from Investing Activities:			
Interest received	-	603	-
Net Cash Provided (Used) for Investing Activities	-	603	-
Net Increase (Decrease) in Cash and Cash Equivalents	-	(72,773)	31,960
Cash and Cash Equivalents at Beginning of Year	-	72,773	137,287
Cash and Cash Equivalents at End of Year	\$ -	\$ -	\$ 169,247
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	-	(440,397)	(2,595)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	-	-	-
Change in Assets and Liabilities			
Decrease (Increase) in Accounts Receivable	10,762	-	-
Increase (Decrease) in Accounts Payable	(1,014)	427,021	-
Increase (Decrease) in Interfund payable	(34,555)	(60,000)	34,555
Total Adjustments	(24,807)	367,021	34,555
Net Cash Provided (Used) by Operating Activities	\$ (24,807)	\$ (73,376)	\$ 31,960
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Borrowing under capital lease			
Total noncash investing, capital and financing activities:	\$ -	\$ -	\$ -

<u>EQUIPMENT REPLACEMENT</u>	<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 154,518	\$ -	\$ 2,874,956
(9,064)	(20,141)	(2,755,865)
-	-	34,555
-	-	(94,556)
<u>145,454</u>	<u>(20,141)</u>	<u>59,090</u>
-	-	24,807
-	-	24,807
(167,652)	-	(167,652)
(14,630)	-	(14,630)
511,389	-	511,389
(841,743)	-	(841,743)
<u>(512,636)</u>	<u>-</u>	<u>(512,636)</u>
13	-	616
13	-	616
(367,169)	(20,141)	(428,123)
<u>445,578</u>	<u>195,241</u>	<u>850,879</u>
<u>\$ 78,409</u>	<u>\$ 175,100</u>	<u>\$ 422,756</u>
(153,046)	(20,141)	(616,179)
298,500	-	298,500
-	-	10,762
-	-	426,007
-	-	(60,000)
<u>298,500</u>	<u>-</u>	<u>675,269</u>
<u>\$ 145,454</u>	<u>\$ (20,141)</u>	<u>\$ 59,090</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>