

COMPREHENSIVE ANNUAL FINANCIAL REPORT

of the

CITY OF PALESTINE, TEXAS

For the Year Ended September 30, 2012

Officials Issuing Report:

**Michael Ohrt, City Manager
Elizabeth Saegert, Finance Director**

CITY OF PALESTINE, TEXAS

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September 30, 2012

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INTRODUCTORY SECTION



City of Palestine

April 30, 2013

Honorable Mayor and City Council
City of Palestine
504 N. Queen Street
Palestine, TX 75801

Dear Mayor and City Council,

The Finance Department and City Manager's Office are pleased to submit the Comprehensive Annual Financial Report for the City of Palestine, Texas, for the fiscal year ended September 30, 2012.

This report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The financial statements have been audited by Frank Campos, CPA, PLLC, a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurances that the financial statements of the City of Palestine for the fiscal year ended September 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Palestine's financial statements for fiscal year ended September 30, 2012, are presented in conformity with generally accepted accounting principles (GAAP).

THE REPORT

This Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The introductory section includes this transmittal letter, a listing of the City Officials and an organizational chart of the City. The financial section includes a Management's Discussion and Analysis (MD&A), Basic Financial Statements and Combining and Individual Fund Statements and Schedules, as well as the Independent Auditors' Report on the basic financial statements. The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Palestine's MD&A can be found immediately following the report of the independent auditors.

The statistical section includes financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader.

The Financial section described above is prepared in accordance with generally accepted accounting principles for governments as prescribed by the Government Accounting Standards Board (GASB) and other professional associations, as applicable.

CITY PROFILE

Location

The City is located in the piney woods of East Texas in the geographic center of Anderson County. Palestine is 100 miles southeast of Dallas and 160 miles north of Houston. The City is located on a ridge between the Neches and Trinity River offering beautiful rolling hills covered by tall pine trees. The City has a major rail corridor and several state and federal highways that traverse the City, creating a major commercial and residential hub for the Anderson County region. The City encompasses approximately 18 square miles as well as an extensive extraterritorial jurisdiction. Being a community of significant regional importance for well over 100 years, Palestine is rich in history and culture making it a recognized tourist destination. The Texas State Railroad is located just outside the City and operates several historical trains that provide a unique living history to those who visit this local park. The City is a short distance from the impressive Lake Palestine to the north and grand fishing at Richland Chambers Lake to the west. The City is proud of its natural resources and offers over a thousand acres of City parkland for its citizens and visitors to enjoy.

Organization

The City was incorporated in 1871 and currently operates under a Council-Manager form of government. The City Council is comprised of a Mayor and six council members, and is responsible for enacting legislation in the form of ordinances, resolutions, and regulations governing the City, as well as the appointment of members of various statutory and advisory boards.

The City Manager is the Chief Administrative Officer of the City and is responsible for enforcement of laws and ordinances, as well as appointment of the various department heads of the municipal organization.

Services Provided

The City provides to its citizens those services that have proven to be necessary and meaningful, of which the City can provide at the least cost. Major services provided under general government and enterprise functions are: Police and Fire, Streets, Water and Wastewater Utilities, Solid Waste, Code Enforcement, Parks and Recreation, Public Improvements, Community Development, and Planning and General Administrative Services. The City also offers a Civic Center and is aggressive in servicing the region's economic development.

Accounting Systems and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the

liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls as deemed appropriate by the City Manager. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by the City Manager. All internal control evaluations occur within the above framework. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: (1) safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for the assets. The City believes that its internal accounting controls adequately safeguard and provide reasonable assurance from improper recording of financial transactions. The City's accounting controls are designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned duties.

The objective of budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council. Annual appropriation budgets are adopted for the General, Special Revenue, Debt Service, Enterprise, and Internal Service Funds. The original budget is adopted by the City Council prior to the beginning of the fiscal year. Amendments to the original budget are also approved by the City Council and/or City Manager during the year. The original and final amended budgets are used in this report. Budgets for capital projects funds are normally budgeted on a project basis and not a fiscal year basis. The level of budgetary control (the level at which expenditures cannot legally exceed appropriations) is maintained at the department or project level. The City Manager may approve transfers of unencumbered appropriations, between general classifications of expenditures within a department, provided the transfer amounts do not result in a net increase in total appropriations, and further provided that the transfer amounts do not result in a net increase in total appropriations and further provided that the amount should not be transferred from or to any capital outlay line item account. All transfers are reported to the City Council on a monthly basis. The City also maintains an encumbrance accounting system as one method of accomplishing budgetary control. Open encumbrances are reported as reservations or fund balance at September 30, 2012, and are generally re-appropriated as part of the subsequent year's budget. Otherwise, unspent and unencumbered budget appropriations lapse at year-end.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

The housing and credit crises have continued to put a hold on real economic growth. However, the Fed predicts growth in the near term. Years of national stagnation have finally impacted what was considered the first real local economic boom in decades. Local sales tax collections have dipped due to the epidemic that has flustered consumer confidence across the nation.

The national economic condition and bad news on Wall Street have supplied a great deal of caution into our local employment expansion and business commerce. Much of the economic climate and data for the community suggests that the national economy is actually suppressing the growth potential in the local economy. The national unemployment rate for September 30, 2012, was 9.1% and Anderson County unemployment rate was recorded at 8.1% for the same period. For many years, the local economy has included stable employers such as the Texas Department of Criminal Justice with five area prison units and 4,000 employees, Wal-Mart Distribution and a large hospital system with over 800 employees.

Even under the strain of the national economic downturn, the City has several construction projects underway including the \$60 million in reconstruction of Palestine Independent School District facilities, a large medical and surgery center, and two assisted living centers. The Texas State Railroad continues to grow ridership since its operation was privatized and is a major boost in our local tourism. The Main Street Palestine program has helped downtown businesses with improvements to several storefront facades, marketing downtown as a tourist destination.

The local economy has managed to endure what is believed to be the tail-end of the national recession with predictions that the decline may be over soon. The local economy will see an increase in sales tax collections in the first and second quarter of this fiscal year and may return to positive territory by the end of the current fiscal year.

Independent Audit

State and local statutes require an annual audit by independent certified public accountants. The accounting firm of Frank Campos, CPA, PLLC, was selected by the City Council to conduct the audit and assure compliance with generally accepted accounting principles in the United States of America.

AWARDS AND ACKNOWLEDGEMENTS

Awards


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palestine for its comprehensive annual financial report for the fiscal year ended September 30, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

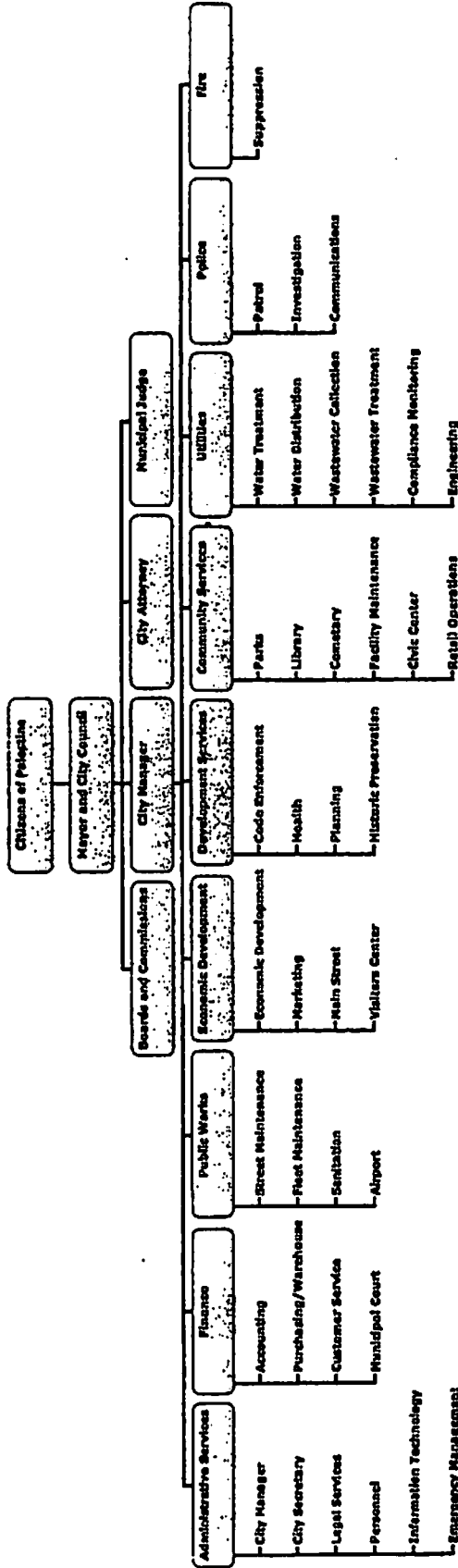
In closing, preparation of this report would not have been possible if not for our dedicated Mayor and City Council. Additionally, a sincere thank you goes out to all of our employees who have worked long hours in preparing this financial document. It is an honor to present the September 30, 2012 financial audit in its final form so members of City Council and ultimately the citizens of Palestine can review our financial position.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Ohrt". The signature is written in a cursive style with a large, stylized "O" and "H".

Mike Ohrt
City Manager
Palestine, TX

CITY OF PALESTINE ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palestine
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morrell
President

Jeffrey R. Enos
Executive Director

CITY OF PALESTINE, TEXAS

PRINCIPAL OFFICIALS

September 30, 2012

<u>City Officials</u>	<u>Elective Positions</u>	<u>District</u>
Bob Herrington	Mayor	
Will Brule	Council Member	District 1
Vernon Denmon, Jr.	Council Member	District 2
Vickey Chivers	Council Member	District 3
James H. Yelverton	Council Member	District 4
Therrell Thomas	Council Member	District 5
Steve Presley	Council Member	District 6

<u>Key Staff</u>	<u>Position</u>
Mike Ohrt	City Manager
Ronald D. Stutes	City Attorney
William Curley	Municipal Judge
Janelle Williams	City Secretary
Jeffrey Lyons	Development Services Director
Elizabeth Saegert	Finance Director
Alan Wilcher	Fire Chief
Theresa Tongio-Holden	Library Director
Robert Herbert	Police Chief
Tim Perry	Public Works Director
Wendy Ellis	Economic Development Director
Robert Sedgwick	Utilities Director

FINANCIAL SECTION

FRANK CAMPOS, CPA

A Professional Limited Liability Company

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of City Council
City of Palestine, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas (the City), as of September 30, 2012, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Palestine's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Member of Texas Society of CPAs and American Institute of CPAs

106 Trinity Place P.O. Box 232 Palestine, Texas 75801

903-723-2557

Fax 903-723-2558

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 14-22, budgetary comparison information on pages 61, pension information on page 63, post-employment healthcare benefits on page 64, and budgetary comparison schedules on pages 76-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palestine, Texas's, financial statements as a whole. The introductory section, additional supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Frank Campos

Frank Campos, CPA, PLLC
April 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
September 30, 2012

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, 2012. 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 in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The comprehensive annual financial report is presented as compliant 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 cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets 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 Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent year. All changes in the net assets 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 modified accrual that is used in the fund level statements.

The Statement of Net Assets 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, 2012

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, and 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 and schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$37,459,013 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 assets (83%) 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 Assets

The following table reflects the condensed Statement of Net Assets:

SUMMARY OF STATEMENT OF NET ASSETS

	Governmental Activities		Business -type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 5,000,034	\$ 4,609,883	\$ 8,385,299	\$ 10,207,275	\$ 13,385,333	\$ 14,817,158
Capital assets	20,540,887	20,168,402	29,253,810	29,018,469	49,794,697	49,186,871
Total assets	<u>25,540,921</u>	<u>24,778,285</u>	<u>37,639,109</u>	<u>39,225,744</u>	<u>63,180,030</u>	<u>64,004,029</u>
Other liabilities	1,054,778	1,091,426	993,425	1,388,155	2,048,203	2,479,581
Long-term liabilities	11,539,883	11,614,720	12,132,931	13,868,666	23,672,814	25,483,386
Total liabilities	<u>12,594,661</u>	<u>12,706,146</u>	<u>13,126,356</u>	<u>15,256,821</u>	<u>25,721,017</u>	<u>27,962,967</u>
Net Assets:						
Invested in capital assets, net of related debt	10,616,024	10,032,101	20,398,116	20,515,764	31,014,140	30,547,865
Restricted	1,053,926	723,203	1,676,274	1,742,282	2,730,200	2,465,485
Unrestricted	1,276,310	1,316,835	2,438,363	1,710,877	3,714,673	3,027,712
Total net assets	<u>\$ 12,946,260</u>	<u>\$ 12,072,139</u>	<u>\$ 24,512,753</u>	<u>\$ 23,968,923</u>	<u>\$ 37,459,013</u>	<u>\$ 36,041,062</u>

A portion of the primary government's net assets, \$2,730,200, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$3,714,673, may be used to meet the City's ongoing obligation to citizens and creditors. The overall financial condition of the City increased during the year due to the local economy improving.

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

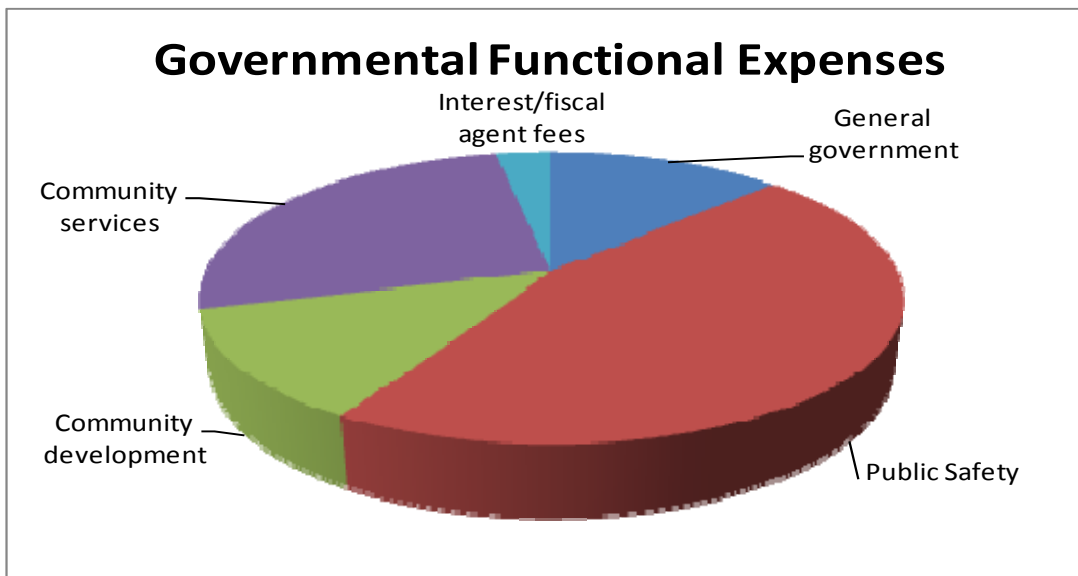
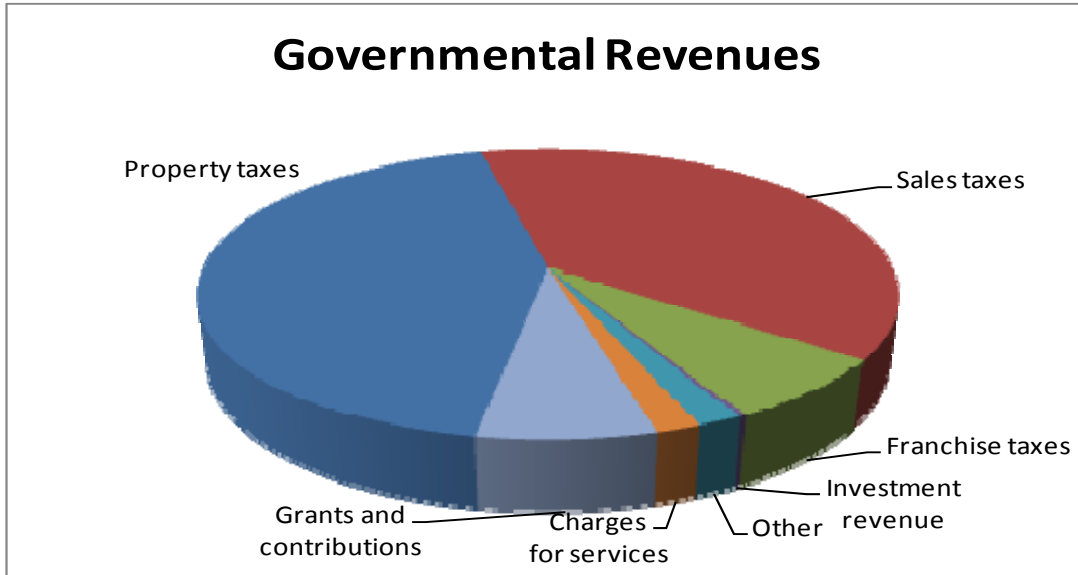
Statement of Activities

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

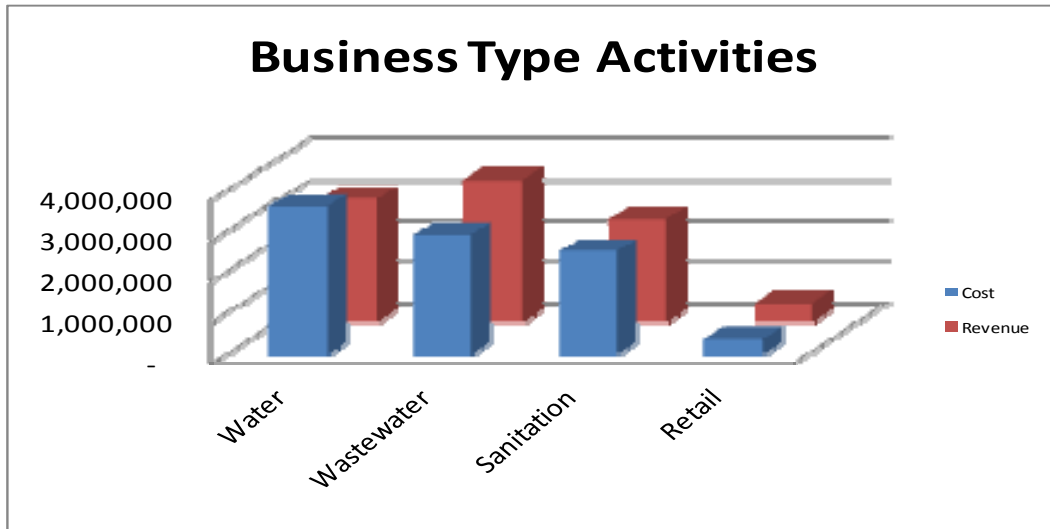
	CITY OF PALESTINE'S CHANGES IN NET ASSETS					
	Governmental Activities		Business -type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,115,919	\$ 947,095	\$ 9,612,464	\$ 9,991,622	\$ 10,728,383	\$ 10,938,717
Operating grants and contributions	245,836	274,365	-	-	245,836	274,365
Capital grants and contributions	733,953	457,124	1,214,975	681,996	1,948,928	1,139,120
General revenues:						
Property taxes	6,084,060	5,894,097	-	-	6,084,060	5,894,097
Sales taxes	5,399,352	5,425,434	-	-	5,399,352	5,425,434
Franchise taxes	1,005,088	1,147,029	-	-	1,005,088	1,147,029
Investment earnings	33,833	20,004	14,909	13,945	48,742	33,949
Other income (loss)	237,203	(37,566)	-	-	237,203	(37,566)
Total revenues	<u>14,855,244</u>	<u>14,127,582</u>	<u>10,842,348</u>	<u>10,687,563</u>	<u>25,697,592</u>	<u>24,815,145</u>
Expenses:						
General government	1,914,617	2,256,316	-	-	1,914,617	2,256,316
Public safety	6,768,221	6,923,063	-	-	6,768,221	6,923,063
Community services	3,840,239	3,374,158	-	-	3,840,239	3,374,158
Community development	1,869,932	2,748,876	-	-	1,869,932	2,748,876
Interest on long-term debt	447,410	266,496	-	-	447,410	266,496
Water	-	-	3,609,771	3,237,448	3,609,771	3,237,448
Wastewater	-	-	2,932,205	3,018,876	2,932,205	3,018,876
Sanitation	-	-	2,525,215	2,755,960	2,525,215	2,755,960
Retail	-	-	372,031	355,287	372,031	355,287
Total expenses	<u>14,840,419</u>	<u>15,568,909</u>	<u>9,439,222</u>	<u>9,367,571</u>	<u>24,279,641</u>	<u>24,936,480</u>
Increases (decreases) in net assets before transfers	14,825	(1,441,327)	1,403,126	1,319,992	1,417,951	(121,335)
Transfers	859,296	713,974	(859,296)	(713,974)	-	-
Change in net assets	874,121	(727,353)	543,830	606,018	1,417,951	(121,335)
Net Assets - beginning	<u>12,072,139</u>	<u>12,799,492</u>	<u>23,968,923</u>	<u>23,362,905</u>	<u>36,041,062</u>	<u>36,162,397</u>
Net Assets - ending	<u>\$ 12,946,260</u>	<u>\$ 12,072,139</u>	<u>\$ 24,512,753</u>	<u>\$ 23,968,923</u>	<u>\$ 37,459,013</u>	<u>\$ 36,041,062</u>

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

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, 2012



For the year, revenue from governmental activities totaled \$14,855,244. Property and sales tax revenues are the City's largest revenue sources. Property taxes increased by 8.42%, while sales taxes decreased by .5%.. The local economy is slowly improving from the recession in 2010 that affected the entire country.

Franchise fees collected from electric, gas, cable, and telephone/telecommunications utilities, totaled \$1,005,088 for the year, a decrease of 12% from the prior year.

For the year, expenses for governmental activities totaled \$14,840,419. This represents a decrease of \$728,409 over last year. The decrease was budgeted by management and council to improve city finances.

Business-type activities net assets increased by \$1,417,951, which is largely attributable to water fund increases resulting from a capital contribution.

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 \$3,238,841. Of this, \$527,227 is reported in nonspendable –notes receivables, \$1,043,467 is reported as restricted, \$224,291 is reported as committed and the remaining fund balance of \$1,443,856 is unassigned.

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

The general fund reported an increase in fund balance due to a increase in property tax revenues for the current year and transfer in from other funds of \$856,765.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of \$88,171 in the general fund. However, the net change in fund balance increased by \$544,876, resulting in a positive variance of \$633,047 from budgeted as amended over actual. General fund revenues were over budget by \$289,956 and general fund expenditures were under budget by \$330,708. Main revenues over budget were property taxes, sales tax and intergovernmental revenues. Main expenditure under budget was public safety.

CAPITAL ASSETS

At year-end, the City's governmental activities funds had invested \$20,540,887 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 \$1,433,004.

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:

CITY OF PALESTINE'S CAPITAL ASSETS AT YEAR END

	Governmental Activities		Business -type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,777,675	\$ 1,716,505	\$ 1,800,469	\$ 1,800,469	\$ 3,578,144	\$ 3,516,974
Buildings	5,637,206	5,637,206	9,992,965	9,992,965	15,630,171	15,630,171
Improvements	9,497,336	7,545,903	-	-	9,497,336	7,545,903
Machinery and equipment	8,761,319	8,109,205	339,018	332,337	9,100,337	8,441,542
Infrastructure	30,134,299	30,134,299	41,236,536	36,133,914	71,370,835	66,268,213
Construction in progress	-	671,633	-	3,224,230	-	3,895,863
Less accumulated depreciation	(35,266,948)	(33,646,349)	(24,115,178)	(22,465,446)	(59,382,126)	(56,111,795)
Net Assets - ending	<u>\$ 20,540,887</u>	<u>\$ 20,168,402</u>	<u>\$ 29,253,810</u>	<u>\$29,018,469</u>	<u>\$ 49,794,697</u>	<u>\$ 49,186,871</u>

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

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation of \$11,157,000 and \$9,978,630 in revenue bonds outstanding. The City redeemed \$970,000 of certificates of obligation and \$3,540,578 of revenue bonds during the year. The City also entered into a capital lease of \$740,001.

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	
	2012	2011	2012	2011	2012	2011
Capital leases	\$ 772,863	\$ 554,301	\$ -	\$ 199,920	\$ 772,863	\$ 754,221
Revenue Bonds	-	-	9,978,630	13,519,208	9,978,630	13,519,208
Certificates of obligation	9,152,000	9,582,000	2,005,000	-	11,157,000	9,582,000
Total	\$ 9,924,863	\$ 10,136,301	\$ 11,983,630	\$ 13,719,128	\$ 21,908,493	\$ 23,855,429

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The national unemployment rate for September 2012 was 7.9% and the State of Texas rate was 6.4%. The Anderson County unemployment rate has historically run slightly higher than the state average and was recorded at 7.4% which is a 2.1% decrease from September of 2011. The national economic condition has supplied a great deal of caution into our local employment expansion and business commerce. Much of the economic climate and data for the community suggest that the national economy is actually suppressing the growth potential in the local economy. The region has been insulated from most of the national economic hardships that are more deeply felt outside East Texas. Some uncertainty and decline in the consumer confidence has been related to the prolonged national economic outlook. On the other hand, it is believed that job availability and opportunity does exist and if the downturn continued, these jobs would be obtainable by qualified persons. One such example of job availability is employment with the State of Texas at one of the area correctional facilities.

The City continues to work towards attracting a diverse business base. One of the mistakes in years past was that the key industry was predominately oil and gas; an industry that is dependent on global variables that are outside the control and influence of the local economy. The City has worked hard in attracting a diversity of jobs. Community leaders have focused on educational opportunities within the community by locating a trade facility within the city limits and an expansion of the local University of Texas campus. It is believed that these educational sources will provide future economic growth and new job opportunities to the community. The Texas State Railroad continues to grow ridership since its operation was privatized and is a major boost in our local tourism. The Main Street program has helped downtown businesses with improvements to several storefront facades and marketing the downtown as a tourist destination.

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

The City of Palestine and Anderson County have approved a tax abatement agreement with Sanderson Farm, Inc. Sanderson Farms is expected to bring 1,000 jobs to the area. In addition, wholesale chemical company Baze Chemical announced its plans to build an ethoxylation plant on the old Vernon Calhoun meat packing property on FM 323.

The local economy has managed to endure what is believed to be the tail end of the national recession with predictions that the decline is over; the local economy has seen an increase in sales tax collections in the first six months of the 2012 fiscal year. The City will continue to aggressively pursue ways to expand the community resources and create greater economic opportunities for its citizens so that the City can endure the national economy downturn and land with our feet first as the City races to build the market as the national economy recovers.

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 Elizabeth Saegert, Finance Director, 504 N. Queen, Palestine, TX, 75801, telephone 903.731.8439, or email esaegert@palestine-tx.org.

BASIC FINANCIAL STATEMENTS

CITY OF PALESTINE, TEXAS

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
	ASSETS			
Current Assets				
Cash and cash equivalents	\$ 1,288,966	\$ 1,437,661	\$ 2,726,627	\$ 1,293,139
Receivable (net of allowance of doubtful accounts)	1,703,890	989,942	2,693,832	167,197
Inventories	107,518	-	107,518	-
Internal Balances	95,054	(95,054)	-	-
Total Current Assets	3,195,428	2,332,549	5,527,977	1,460,336
Noncurrent Assets				
Restricted Assets				
Cash and cash equivalents	1,199,191	5,566,400	6,765,591	-
Receivable (net of allowance of doubtful accounts)	78,188	-	78,188	-
Notes receivable	27,227	-	27,227	-
Deferred charges (net)	-	486,350	486,350	15,442
Notes receivable	500,000	-	500,000	798,446
Capital Assets :				
Nondepreciable	1,777,675	1,800,469	3,578,144	1,009,435
Depreciable, net	18,763,212	27,453,341	46,216,553	3,117,614
Total Noncurrent Assets	22,345,493	35,306,560	57,652,053	4,940,937
Total Assets	\$ 25,540,921	\$ 37,639,109	\$ 63,180,030	\$ 6,401,273
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,002,948	\$ 318,524	\$ 1,321,472	\$ 21,857
Accrued interest payable	51,830	92,861	144,691	13,794
Water meter deposits - Refundable	-	582,040	582,040	-
Unearned revenue	-	-	-	775,092
Non-current Liabilities:				
Due within a year	1,322,557	1,673,398	2,995,955	265,780
Due in more than a year	10,217,326	10,459,533	20,676,859	3,666,484
Total Liabilities	12,594,661	13,126,356	25,721,017	4,743,007
Net Assets				
Invested in Capital Assets, Net of Related Debt	10,616,024	20,398,116	31,014,140	194,785
Restricted For:				
Debt Service	99,359	1,676,274	1,775,633	-
Capital Projects	298,806	-	298,806	-
Other purposes	655,761	-	655,761	-
Unrestricted	1,276,310	2,438,363	3,714,673	1,463,481
Total Net Assets	\$ 12,946,260	\$ 24,512,753	\$ 37,459,013	\$ 1,658,266

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,914,617	\$ -	\$ 235,382	-
Public Safety	6,768,221	527,692	10,454	339,593
Community Services	3,840,239	494,344	-	106,591
Community Development	1,869,932	93,883	-	287,769
Interest expense on long term debt	447,410	-	-	-
Total Governmental Activities	14,840,419	1,115,919	245,836	733,953
Business-type Activities				
Water fund	3,609,771	3,031,365	-	1,214,975
Wastewater fund	2,932,205	3,522,466	-	-
Sanitation	2,525,215	2,545,058	-	-
Retail	372,031	513,575	-	-
Total Business-type Activities	9,439,222	9,612,464	-	1,214,975
Total Primary Government	\$ 24,279,641	\$ 10,728,383	\$ 245,836	\$ 1,948,928
Component Unit				
PEDC	\$ 988,018	\$ 60,000		\$ -

General Revenues:

- Property Taxes
- Franchise Taxes
- Sales and Use Taxes
- Investment Earnings
- Other income

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, beginning

Net Assets, ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business- type Activities	Total	PEDC
\$ (1,679,235)	\$ -	\$ (1,679,235)	\$ -
(5,890,482)	-	(5,890,482)	-
(3,239,304)	-	(3,239,304)	-
(1,488,280)	-	(1,488,280)	-
(447,410)	-	(447,410)	-
<u>(12,744,711)</u>	<u>-</u>	<u>\$ (12,744,711)</u>	<u>-</u>
-	636,569	636,569	-
-	590,261	590,261	-
-	19,843	19,843	-
-	141,544	141,544	-
<u>-</u>	<u>1,388,217</u>	<u>1,388,217</u>	<u>-</u>
<u>(12,744,711)</u>	<u>1,388,217</u>	<u>(11,356,494)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(928,018)</u>
6,084,060	-	6,084,060	-
1,005,088	-	1,005,088	-
5,399,352	-	5,399,352	996,487
33,833	14,909	48,742	1,569
237,203	-	237,203	6,103
859,296	(859,296)	-	-
<u>13,618,832</u>	<u>(844,387)</u>	<u>12,774,445</u>	<u>1,004,159</u>
874,121	543,830	1,417,951	76,141
12,072,139	23,968,923	36,041,062	1,582,125
<u>\$ 12,946,260</u>	<u>\$ 24,512,753</u>	<u>\$ 37,459,013</u>	<u>\$ 1,658,266</u>

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and cash equivalents	\$ 134,794	\$ 224,378	\$ 359,172
Restricted Cash and cash equivalents	-	1,199,191	1,199,191
Receivables, net	1,656,179	1,752	1,657,931
Restricted Receivables	-	78,188	78,188
Due from other funds	835,434	21,000	856,434
Notes Receivable	500,000	-	500,000
Restricted Notes Receivable	-	27,227	27,227
Total Assets	\$ 3,126,407	\$ 1,551,736	\$ 4,678,143
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 358,037	\$ 224,097	\$ 582,134
Deferred Revenue Taxes	406,066	47,657	453,723
Due to other funds	-	403,445	403,445
Total Liabilities	764,103	675,199	1,439,302
 Fund balances:			
Nonspendable:			
Notes receivables	500,000	27,227	527,227
Restricted for:			
Economic development	-	516,768	516,768
Debt service	-	99,359	99,359
Capital projects	-	298,806	298,806
Public safety	-	100,779	100,779
Other purposes	-	27,755	27,755
Committed for:			
Community forest	-	56,309	56,309
Cemetery	-	167,982	167,982
Unassigned	1,862,304	(418,448)	1,443,856
Total Fund balances	2,362,304	876,537	3,238,841
Total Liabilities and Fund Balances	\$ 3,126,407	\$ 1,551,736	\$ 4,678,143

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2012

Total fund balances - governmental funds balance sheet	\$ 3,238,841
Amounts reported for governmental activities in the statement of net assets (SNA) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.	
Capital assets, non-depreciable	1,777,675
Capital assets, depreciable	17,267,230
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	
	499,682
Internal service funds are used by management to charge the cost of certain capital assets to individual funds.	
The assets and liabilities of the internal service funds are included in governmental activities in the SNA.	
	981,680
Long-term liabilities are not due and payable in the current period and, therefore , are not reported in the funds.	
Accrued interest payable	(51,830)
Noncurrent liabilities due in one year	(970,392)
Noncurrent liabilities due in more than one year	<u>(9,796,626)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 12,946,260</u>

CITY OF PALESTINE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes	\$ 11,102,678	\$ 1,252,031	\$ 12,354,709
Licenses, permits and fees	93,883	-	93,883
Intergovernmental	525,546	611,163	1,136,709
Charges for services	39,420	276,146	315,566
Fines and Forfeitures	506,881	20,811	527,692
Investment	29,774	4,059	33,833
Other revenues	203,642	33,561	237,203
Total revenues	<u>12,501,824</u>	<u>2,197,771</u>	<u>14,699,595</u>
Expenditures:			
General government	1,696,390	-	1,696,390
Public Safety	6,855,549	20,641	6,876,190
Community Services	3,156,847	563,642	3,720,489
Community Development	1,092,427	1,217,024	2,309,451
Debt service:			
Principal	-	430,000	430,000
Interest and fiscal charges	-	423,098	423,098
Total expenditures	<u>12,801,213</u>	<u>2,654,405</u>	<u>15,455,618</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(299,389)</u>	<u>(456,634)</u>	<u>(756,023)</u>
Other financing sources (uses):			
Transfers in	858,765	69,000	927,765
Transfers out	(14,500)	(53,969)	(68,469)
Total other financing sources (uses)	<u>844,265</u>	<u>15,031</u>	<u>859,296</u>
Net change in fund balance	544,876	(441,603)	103,273
Fund balances, October 1	<u>1,817,428</u>	<u>1,318,140</u>	<u>3,135,568</u>
Fund balances, September 30	<u>\$ 2,362,304</u>	<u>\$ 876,537</u>	<u>\$ 3,238,841</u>

See 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, 2012

Net change in fund balances - total governmental funds	\$ 103,273
<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	1,649,261
Depreciation	(1,433,004)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds</p>	
	109,691
<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	430,000
Interest expense	2,950
<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>	
	(90,640)
<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>102,590</u>
Change in net assets of governmental activities - statement of net assets	<u><u>\$ 874,121</u></u>

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2012

	Business-Type Activities - Enterprise Funds				Total
	Water	Wastewater	Sanitation	Retail	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 964,275	\$ 302,515	\$ -	\$ 170,871	\$ 1,437,661
Receivable (net)	306,557	346,593	336,792	-	989,942
Inventory	-	-	-	-	-
Due from other funds	702,374	879,578	-	13,095	1,595,047
Total Current Assets	<u>1,973,206</u>	<u>1,528,686</u>	<u>336,792</u>	<u>183,966</u>	<u>4,022,650</u>
Noncurrent Assets:					
Cash and cash equivalents (restricted)	2,451,634	2,890,063	-	224,703	5,566,400
Deferred charges (net)	84,955	378,128	-	23,267	486,350
Capital Assets					
Nondepreciable	10,179	36,663	20,281	1,733,346	1,800,469
Depreciable, net	13,370,478	12,438,398	-	1,644,465	27,453,341
Total Capital Assets	<u>13,380,657</u>	<u>12,475,061</u>	<u>20,281</u>	<u>3,377,811</u>	<u>29,253,810</u>
(Net of Accumulated Depreciation)	<u>15,917,246</u>	<u>15,743,252</u>	<u>20,281</u>	<u>3,625,781</u>	<u>35,306,560</u>
Total Noncurrent Assets	<u>15,917,246</u>	<u>15,743,252</u>	<u>20,281</u>	<u>3,625,781</u>	<u>35,306,560</u>
Total assets	<u>\$ 17,890,452</u>	<u>\$ 17,271,938</u>	<u>\$ 357,073</u>	<u>\$ 3,809,747</u>	<u>\$ 39,329,210</u>
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	\$ 143,308	\$ 41,398	\$ 128,622	\$ 5,196	\$ 318,524
Due to other funds	890,795	61,324	670,549	67,433	1,690,101
Accrued interest payable	8,173	82,761	-	1,927	92,861
Water meter deposits - refundable (restricted)	582,040	-	-	-	582,040
Long-term debt - due within one year	326,874	1,269,390	-	77,134	1,673,398
Total current liabilities	<u>1,951,190</u>	<u>1,454,873</u>	<u>799,171</u>	<u>151,690</u>	<u>4,356,924</u>
Noncurrent liabilities					
Long-term debt - due in more than one year	557,446	9,200,591	-	701,496	10,459,533
Total noncurrent liabilities	<u>557,446</u>	<u>9,200,591</u>	<u>-</u>	<u>701,496</u>	<u>10,459,533</u>
Total Liabilities	<u>2,508,636</u>	<u>10,655,464</u>	<u>799,171</u>	<u>853,186</u>	<u>14,816,457</u>
NET ASSETS					
Invested in capital assets, net of related debt	14,146,685	3,383,999	20,281	2,847,151	20,398,116
Restricted for Debt Service	428,569	1,247,705	-	-	1,676,274
Unrestricted	806,562	1,984,770	(462,379)	109,410	2,438,363
Total net assets	<u>\$ 15,381,816</u>	<u>\$ 6,616,474</u>	<u>\$ (442,098)</u>	<u>\$ 2,956,561</u>	<u>\$ 24,512,753</u>

See Notes to Financial Statements.

Governmental
 Activities
 Internal Service
 Funds

\$	929,794
	-
	107,518
	538,204
	<u>1,575,516</u>
	-
	-
	-
	1,495,982
	<u>1,495,982</u>
	1,495,982
\$	<u><u>3,071,498</u></u>

\$	420,814
	896,139
	-
	-
	352,165
	<u>1,669,118</u>
	420,700
	<u>420,700</u>
	<u>2,089,818</u>
	723,117
	-
	258,563
\$	<u><u>981,680</u></u>

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
OPERATING REVENUES:					
Charges For Services	\$ 3,000,888	\$ 3,522,466	\$ 2,545,058	\$ 509,317	\$ 9,577,729
Other revenues	30,477	-	-	4,258	34,735
Total Operating Revenues	<u>3,031,365</u>	<u>3,522,466</u>	<u>2,545,058</u>	<u>513,575</u>	<u>9,612,464</u>
OPERATING EXPENSES:					
Cost of sales and services	1,923,695	1,216,590	2,432,218	161,764	5,734,267
Personnel	936,181	556,114	92,997	64,858	1,650,150
Depreciation	676,976	880,223	-	92,533	1,649,732
Total Operating Expenses	<u>3,536,852</u>	<u>2,652,927</u>	<u>2,525,215</u>	<u>319,155</u>	<u>9,034,149</u>
Operating Income (Loss)	<u>(505,487)</u>	<u>869,539</u>	<u>19,843</u>	<u>194,420</u>	<u>578,315</u>
NON-OPERATING REVENUES					
(EXPENSES):					
Investment revenue	6,980	6,941	21	967	14,909
Interest expense	(72,919)	(279,278)	-	(52,876)	(405,073)
Total Non-operating Revenues	<u>(65,939)</u>	<u>(272,337)</u>	<u>21</u>	<u>(51,909)</u>	<u>(390,164)</u>
(Expenses)	<u>(65,939)</u>	<u>(272,337)</u>	<u>21</u>	<u>(51,909)</u>	<u>(390,164)</u>
Income (Loss) before					
Contributions and Transfers	<u>(571,426)</u>	<u>597,202</u>	<u>19,864</u>	<u>142,511</u>	<u>188,151</u>
Transfer in	176,500	-	-	-	176,500
Transfers (out)	(337,301)	(319,350)	(324,849)	(54,296)	(1,035,796)
Capital Contribution	1,021,548	193,427	-	-	1,214,975
Change in net assets	<u>289,321</u>	<u>471,279</u>	<u>(304,985)</u>	<u>88,215</u>	<u>543,830</u>
Net assets, October 1	15,092,495	6,145,195	(137,113)	2,868,346	23,968,923
Net assets, September 30	<u>\$ 15,381,816</u>	<u>\$ 6,616,474</u>	<u>\$ (442,098)</u>	<u>\$ 2,956,561</u>	<u>\$ 24,512,753</u>

See Notes to Financial Statements.

Governmental
Activities
Internal Service
Funds

\$	3,392,800
	-
	<u>3,392,800</u>
	2,962,433
	-
	<u>302,087</u>
	<u>3,264,520</u>
	<u>128,280</u>
	1,574
	(27,264)
	<u>(25,690)</u>
	<u>102,590</u>
	-
	-
	-
	<u>102,590</u>
	879,090
\$	<u>981,680</u>

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2012

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 3,108,400	\$ 3,584,653	\$ 2,641,528	\$ 513,575	\$ 9,848,156
Payments to suppliers	(2,193,149)	(1,250,480)	(2,526,332)	(168,927)	(6,138,888)
Payments to employees	(935,446)	(557,092)	(92,997)	(64,858)	(1,650,393)
Internal Activity - payments to other funds	642,430	(835,530)	295,549	38,915	141,364
Net Cash Provided by Operating Activities	<u>622,235</u>	<u>941,551</u>	<u>317,748</u>	<u>318,705</u>	<u>2,200,239</u>
Cash Flows from Noncapital Financing Activities					
Transfer from (to) other funds	(160,801)	(319,350)	(324,849)	(54,296)	(859,296)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(160,801)</u>	<u>(319,350)</u>	<u>(324,849)</u>	<u>(54,296)</u>	<u>(859,296)</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition and construction of capital assets	(1,438,586)	(446,473)	-		(1,885,059)
Capital contribution	1,021,548	193,427	-	-	1,214,975
Principal paid on capital debt	(333,060)	(3,876,859)	-	(70,578)	(4,280,497)
Interest paid on capital debt	(46,504)	(232,060)	-	(48,040)	(326,604)
Proceeds from capital debt	-	2,545,000	-	-	2,545,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(796,602)</u>	<u>(1,816,965)</u>	<u>-</u>	<u>(118,618)</u>	<u>(2,732,185)</u>
Cash Flows from Investing Activities					
Interest received	6,980	6,941	21	967	14,909
Net Cash Provided by Investing Activities	<u>6,980</u>	<u>6,941</u>	<u>21</u>	<u>967</u>	<u>14,909</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(328,188)	(1,187,823)	(7,080)	146,758	(1,376,333)
Beginning cash and cash equivalents	3,744,097	4,380,401	7,080	248,816	8,380,394
Ending Cash and Cash Equivalents	<u>\$ 3,415,909</u>	<u>\$ 3,192,578</u>	<u>\$ -</u>	<u>\$ 395,574</u>	<u>\$ 7,004,061</u>
Ending Cash and Cash Equivalents					
Unrestricted cash and cash equivalents	964,275	302,515	-	170,871	1,437,661
Restricted cash and cash equivalents	2,451,634	2,890,063	-	224,703	5,566,400
	<u>\$ 3,415,909</u>	<u>\$ 3,192,578</u>	<u>\$ -</u>	<u>\$ 395,574</u>	<u>\$ 7,004,061</u>

Governmental
Activities
Internal Service
Funds

\$ 3,392,800
(3,213,888)
-
(11,751)
167,161

-
-

(340,769)
-
(516,630)
(27,264)
740,001
(144,662)

1,574
1,574

24,073
905,721
\$ 929,794

929,794
-
\$ 929,794

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2012

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ (505,487)	\$ 869,539	\$ 19,843	\$ 194,420	\$ 578,315
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	676,976	880,223	-	92,533	1,649,732
Changes in Operating Assets and Liabilities:					
(Increase) Decrease in Current Assets:					
Accounts receivable	77,035	62,187	96,470	-	235,692
Inventory	-	-	-	-	-
Due from other funds	(248,365)	(879,578)	-	32,391	(1,095,552)
Increase (Decrease) in Current Liabilities:					
Due to other funds	890,795	44,048	295,549	6,523	1,236,915
Accounts payable and accrued liabilities	(268,719)	(34,868)	(94,114)	(7,162)	(404,863)
Net Cash Provided by Operating Activities	\$ 622,235	\$ 941,551	\$ 317,748	\$ 318,705	\$ 2,200,239

See Notes to Financial Statements.

Governmental
Activities
Internal Service
Funds

\$	128,280
	302,087
	-
	23,074
	-
	(11,751)
	(274,529)
\$	<u>167,161</u>

CITY OF PALESTINE, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The City provides the following services: general government; community development; fire and rescue; leisure services; maintenance; Municipal Court; police; streets and drainage; water distribution; wastewater collection/treatment; sanitation; and retail.

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

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

Discretely Presented Component Unit

Palestine Economic Development Corporation

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 with 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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

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 Assets and a Statement of Activities. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets 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 assets consists of constraints placed on net assets 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 assets consists of net assets 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 Assets 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.

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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

C. Government-Wide and Fund Financial Statements , continued

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 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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

C. Government-Wide and Fund Financial Statements , continued

The proprietary funds used by the City include the following:

Enterprise Funds

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

D. Measurement Focus and Basis of Accounting

The government-wide Statements of Net Assets 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 assets. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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.

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

D. Measurement Focus and Basis of Accounting, continued

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

The Statements of Net Assets, 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, and Net Assets or Fund Equity

1. Deposits and Investments

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and cash equivalents."

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

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

- Direct obligations of the U.S. Government
- Money market mutual funds that meet certain criteria
- Statewide investment pools

2. Receivables and Payables

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

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.

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 assets' 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, 2012

5. Compensated Employee Absences

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of bonds payable 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, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

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

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

7. Fund Equity

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes accounting and financial reporting requirements to improve the usefulness of information about fund balance by providing clearer, more structured fund balance classifications and clarifying the definitions of existing governmental fund types. This statement is effective for financial statements for years beginning after June 15, 2011. The statement classifies fund balance into the following categories: nonspendable; restricted; committed; assigned and unassigned.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

7. Fund Equity, continued

Committed fund balance is constrained by City Council through legislation, resolutions, or ordinance.

The City considers restricted expenditures expended first when restricted and unrestricted resources exist. In addition, the City considers unrestricted classifications of resources to have been spent by committed amounts first followed by assigned and unassigned.

8. 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.

9. 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.

8. 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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The following special revenue funds have legally adopted budgets: Tourism and Civic Center, Airport, Debt Service, Municipal Court security, Municipal Court technology, and Cemetery. The Special Revenue and Debt Service Funds are not considered to 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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONTINUED

A. Deficit Fund Balance/Net Assets

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

<u>Fund</u>	<u>Deficit</u>
Airport	\$ 61,836
Generator grant	\$ 15,247
2006 Series Imp.	\$ 47,715
Capital Projects	\$ 259,342
Home Grant	\$ 34,395
Sanitation	\$ 462,379
Health Insurance	\$ 847,753
Central Warehouse	\$ 39,083

B. Expenditures Over Appropriations

The city general fund expenditures were under budget by \$330,708, but the following nonmajor fund's expenditure categories were in excess of appropriations:

<u>Fund/Category</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures in excess of Appropriations</u>
Municipal Court Technology			
Public Safety	2,092	1,537	(555)
2006 Series Improvements			
Community Development	839,487	170,000	(669,487)
Capital Improvement Projects	376,187	98,810	(277,377)

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>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools	\$6,150,801	0.00

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of year-end, market values of pledged securities and FDIC insurance exceeded bank balances.

Credit risk. As of September 30, 2012, 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.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

More specifically, the U.S. agencies held by the City as of September 30, 2012, consist of bonds issued by the Federal National Mortgage Association. These investments were rated not less than AAA by Moody's and Standard & Poor's. In addition to limiting the City's investments to those specifically authorized by policy, the City also protects against credit risk by diversifying their portfolio. The maximum allowable portion of the City's portfolio invested in state and local government securities is 50 percent of the total portfolio, with exposure to any one issuer of less than ten percent of the total portfolio at the time of purchase.

TexPool

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

A. Deposits and Investments, continued

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 assets 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 promissory note matures on December 1, 2016. The Authority is to pay the City interest only for the first five years of the loan. The payments will be \$6,250 beginning on March 1, June 1, September 1, December 1, of 2008 through 2011. The interest rate starting in 2012 was reduced from 5% to 2%. The Authority will pay interest and principal over a four-year period concluding on December 1, 2016.

The City, through its revolving loan fund, loaned two local companies funds for certain approved business needs. The balance outstanding on notes at September 30, 2012, totaled \$27,227. Interest rates on notes are fixed at 2.25% and 2.75%. Principle and interest payments are due monthly and are \$656.04 and \$1198.44, respectively. Notes are collateralized by personal property and real estate. Notes mature on February 1, 2015 and April 15, 2013, respectively.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

C. Receivables

The following comprise receivable balances at year-end

	General	Nonmajor Governmental	Water	Wastewater	Sanitation
Receivables					
Ad valorem taxes	\$ 720,651	\$ 88,483	\$ -	\$ -	\$ -
Other Taxes	1,101,580	27,328	-	-	-
Other	-	1,752	2,850	2,579	-
Accounts	<u>109,064</u>	<u>-</u>	<u>348,104</u>	<u>366,462</u>	<u>376,141</u>
Gross receivables	1,931,295	117,563	350,954	369,041	376,141
Less: allowance for uncollectible	<u>275,116</u>	<u>37,623</u>	<u>44,397</u>	<u>22,448</u>	<u>39,349</u>
Net total receivables	<u>\$ 1,656,179</u>	<u>\$ 79,940</u>	<u>\$ 306,557</u>	<u>\$ 346,593</u>	<u>\$ 336,792</u>

D. 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	\$ 1,716,505	\$ 61,170	\$ -	\$ 1,777,675
Construction in progress	671,633	-	(671,633)	-
Total capital assets not being depreciated	<u>2,388,138</u>	<u>61,170</u>	<u>(671,633)</u>	<u>1,777,675</u>
Capital assets, being depreciated:				
Buildings	5,637,206	-		5,637,206
Improvements	7,545,903	1,951,433	-	9,497,336
Machinery and equipment	8,109,205	771,415	(119,301)	8,761,319
Infrastructure	30,134,299	-	-	30,134,299
Total capital assets being depreciated	<u>51,426,613</u>	<u>2,722,848</u>	<u>(119,301)</u>	<u>54,030,160</u>
Less accumulated depreciation:				
Buildings	(3,945,576)	(80,057)		(4,025,633)
Improvements	(6,195,224)	(357,263)		(6,552,487)
Machinery and equipment	(5,730,351)	(525,863)	114,492	(6,141,722)
Infrastructure	(17,775,198)	(771,908)		(18,547,106)
Total accumulated depreciation	<u>(33,646,349)</u>	<u>(1,735,091)</u>	<u>114,492</u>	<u>(35,266,948)</u>
Total capital assets being depreciated, net	<u>17,780,264</u>	<u>987,757</u>	<u>(4,809)</u>	<u>18,763,212</u>
Governmental activities capital assets, net	<u>\$ 20,168,402</u>	<u>\$ 1,048,927</u>	<u>\$ (676,442)</u>	<u>\$ 20,540,887</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

Governmental activities capital assets, net	\$ 20,540,887
Less associated debt	<u>(9,924,863)</u>
Invested in Capital Assets, Net of Related debt	<u>\$ 10,616,024</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 400,244
Public Safety	239,508
Community Development	771,908
Community Service	<u>323,431</u>
Total depreciation expenses - governmental activities	<u>\$ 1,735,091</u>

The PEDC reported land of \$1,009,433 and depreciable capital assets net of accumulated depreciation of \$3,117,614 at year-end.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,800,469	\$ -	\$ -	\$ 1,800,469
Construction in progress	<u>3,224,230</u>	<u>1,878,378</u>	<u>(5,102,608)</u>	<u>-</u>
Total capital assets not being depreciated	<u>5,024,699</u>	<u>1,878,378</u>	<u>(5,102,608)</u>	<u>1,800,469</u>
Capital assets, being depreciated:				
Buildings	9,992,965		-	9,992,965
Machinery and equipment	332,337	6,681	-	339,018
Infrastructure	<u>36,133,914</u>	<u>5,102,622</u>	-	<u>41,236,536</u>
Total capital assets being depreciated	<u>46,459,216</u>	<u>5,109,303</u>	-	<u>51,568,519</u>
Less accumulated depreciation:				
Buildings	(6,233,922)	(259,394)	-	(6,493,316)
Machinery and equipment	(146,272)	(23,090)	-	(169,362)
Infrastructure	<u>(16,085,252)</u>	<u>(1,367,248)</u>	-	<u>(17,452,500)</u>
Total accumulated depreciation	<u>(22,465,446)</u>	<u>(1,649,732)</u>	-	<u>(24,115,178)</u>
Total capital assets being depreciated, net	<u>23,993,770</u>	<u>3,459,571</u>	-	<u>27,453,341</u>
Business-type activities capital assets, net	<u>\$ 29,018,469</u>	<u>\$ 5,337,949</u>	<u>\$ (5,102,608)</u>	<u>\$ 29,253,810</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

Business-type activities, capital assets, net	\$ 29,253,810
Less associated debt	(11,983,630)
Unspent proceeds of capital related debt	2,641,586
Deferred charges	<u>486,350</u>
Invested in Capital Assets, Net of Related debt	<u>\$ 20,398,116</u>

Depreciation was charged to business-type functions as follows:

Business-type activities:

Water and wastewater	\$ 1,557,199
Retail	<u>92,533</u>
Total depreciation expenses - business-type activities	<u>\$ 1,649,732</u>

Business type activities interest expense capitalized during construction for the year is \$114,776 net of related interest income of \$1,429.

E. 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	\$ 9,582,000	\$ -	\$ 430,000	\$ 9,152,000 *	\$ 450,000
Capital leases	554,301	740,001	521,439	772,863 *	352,165
Compensated absences	1,226,633	593,600	519,252	1,300,981	520,392
Net OPEB obligation	<u>251,786</u>	<u>97,244</u>	<u>34,991</u>	<u>314,039</u>	<u>-</u>
Governmental activities					
Long - term liabilities	<u>\$ 11,614,720</u>	<u>\$ 1,430,845</u>	<u>\$ 1,505,682</u>	<u>\$ 11,539,883</u>	<u>\$ 1,322,557</u>
Long-term debt due in more than a year				<u>\$ 10,217,326</u>	
* Debt associated with capital assets				<u>\$ 9,924,863</u>	

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

E. Long – Term Debt, continued

Business type activities					
Revenue Bonds	\$ 13,519,208	\$ -	\$ 3,540,578	\$ 9,978,630	* \$ 1,062,134
Certificate of obligation		2,545,000	540,000	2,005,000	* 535,000
Capital Leases	199,920	-	199,920	-	* -
Compensated absences	<u>149,538</u>	<u>72,939</u>	<u>73,176</u>	<u>149,301</u>	<u>76,264</u>
Business-type activities					
Long - term liabilities	<u>\$ 13,868,666</u>	<u>\$ 2,617,939</u>	<u>\$ 4,353,674</u>	<u>\$ 12,132,931</u>	<u>\$ 1,673,398</u>
Long-term debt due in more than a year				<u>\$ 10,459,533</u>	
* Debt associated with capital assets				<u>\$ 11,983,630</u>	
PEDC					
Notes	<u>\$ 4,189,003</u>	<u>\$ -</u>	<u>\$ 256,739</u>	<u>\$ 3,932,264</u>	<u>\$ 265,780</u>
Long-term debt due in more than a year				<u>\$ 3,666,484</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Federal Arbitrage

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

The PEDC notes payable have outstanding balances of \$1,149,301 and \$2,782,963 and interest rates of 4.61% and 7.35%, 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 2006	4.100%	\$ 905,000
Series 2008	3.874%	1,740,000
Series 2010A Taxable	6.75%	1,875,000
Series 2010 B	4.125%	3,730,000
Series 2010 A Non taxable	5.25%	902,000
Total Governmental Activities Long-term Debt		<u>\$ 9,152,000</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

E. Long – Term Debt, continued

<u>Business-Type Activities</u>		
Water and sewer, refunding series 2003A	2.00-4.125%	1,525,000
Water and sewer, series 2003	.035-3.10%	2,865,000
Water and sewer, series 2006	2.20-4.20%	625,000
Water and sewer, series 2007	2.40-4.60%	3,660,000
Water and sewer, series 2009	.015-4.125%	525,000
Lease Revenue - Taxable	6.50%	778,630
Certificate of obligation 2011 refunding	2%	2,005,000
Total Business-Type Activities Long-term Debt		<u><u>\$ 11,983,630</u></u>

Annual debt service requirements to maturity for bonds, notes and 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
2013	\$ 450,000	\$ 408,017	\$ 1,062,134	\$ 303,362	\$ 535,000	\$ 41,025
2014	460,000	392,028	812,266	273,489	545,000	30,325
2015	475,000	374,785	846,417	286,346	560,000	19,425
2016	610,000	353,324	683,629	221,805	90,000	8,225
2017	293,000	332,397	704,945	200,514	90,000	6,425
2018-2022	2,202,000	1,381,713	3,686,739	578,733	90,000	4,625
2023-2027	2,781,000	790,047	2,102,500	242,308	95,000	2,375
2028-2030	1,881,000	130,033	80,000	5,080	-	-
	<u>\$ 9,152,000</u>	<u>\$ 4,162,344</u>	<u>\$ 9,978,630</u>	<u>\$ 2,111,637</u>	<u>\$ 2,005,000</u>	<u>\$ 112,425</u>

Year Ending September 30,	PEDC	
	Notes	
	Principal	Interest
2013	\$ 265,780	\$ 247,606
2014	281,954	231,432
2015	299,166	214,220
2016	317,486	195,900
2017	336,994	176,392
2018-2022	1,489,394	613,186
2023-2027	941,490	150,670
	<u>\$ 3,932,264</u>	<u>\$ 1,829,406</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

E. Long – Term Debt, continued

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Capital Leases		Capital Leases	
	Principal	Interest	Principal	Interest
2012	\$ 352,165	\$ 21,457	\$ -	\$ -
2013	163,723	14,600	-	-
2014	169,408	8,914	-	-
2015	87,567	3,032	-	-
	<u>\$ 772,863</u>	<u>\$ 48,003</u>	<u>\$ -</u>	<u>-</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 \$1,387,507 less accumulated depreciation of \$791,400, net \$596,107.

F. 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 \$59,363.

Operating Leases –Lessor

The City has leasing arrangements with nine tenants in the City owned mall. The term of lease arrangements range from 12 months to 60 months. Monthly rental amounts range from \$160 to \$15,000.

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

Year	Amount
2013	28,793
2014	28,793
2015	25,804
2016	21,855
2017	12,214
Total	<u>\$ 117,459</u>

Cost of mall, excluding city library in mall, \$3,613,372. Total amount of accumulated depreciation on mall at year-end was \$235,560.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

G. Interfund Transactions

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

	Payable						
	Total	Nonmajor Governmental	Internal Service	Water	Wastewater	Sanitation	Retail
Receivable							
General	\$ 835,434	\$ 34,395	\$ 761,039	\$ 40,000	\$ -	\$ -	\$ -
Nonmajor governmental	21,000	-	-	16,000	5,000	-	-
Internal Service	538,204	368,075	135,100	13,500	21,529	-	-
Water	702,374	-	-	-	34,795	667,579	-
Wastewater	879,578	-	-	809,175	-	2,970	67,433
Retail	13,095	975	-	12,120	-	-	-
Total	<u>\$ 2,989,685</u>	<u>\$ 403,445</u>	<u>\$ 896,139</u>	<u>\$ 890,795</u>	<u>\$ 61,324</u>	<u>\$ 670,549</u>	<u>\$ 67,433</u>

	Transfers in			
	Total	Nonmajor		
		General	Governmental	Water
Transfer out				
General	\$ 14,500	\$ -	\$ 13,000	\$ 1,500
Nonmajor governmental	53,969	53,969	-	-
Water	337,301	281,301	56,000	-
Wastewater	319,350	269,350	-	50,000
Sanitation	324,849	199,849	-	125,000
Retail	54,296	54,296	-	-
Total transfers	<u>\$ 1,104,265</u>	<u>\$ 858,765</u>	<u>\$ 69,000</u>	<u>\$ 176,500</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 for other purposes are for the following:

Library	\$ 16,058
Community beautification	11,697
Total restricted for other purposes	<u>\$ 27,755</u>

I. Net Assets

The City's restricted net assets for other purposes are for the following:

Community Services	\$ 27,755
Economic Development	527,227
Public Safety	100,779
Total restricted for other purposes	<u>\$ 655,761</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

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 year are as follows:

Beginning claims payable	\$ 533,959
Claims incurred	815,123
Claims incurred but not reported	174,329
Claims paid	<u>(1,256,271)</u>
Ending claims payable	<u>\$ 267,140</u>

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

B. Contingent Liabilities

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

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

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

C. Pension Plans - Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid-defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 847 administered by TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

C. Pension Plans - Texas Municipal Retirement System, continued

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at www.TMRS.com.

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

	2012	2011
Employee deposit rate	6.00%	6.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/50/20	60/50/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

The following governmental funds have been used in prior years to liquidate the net pension obligation and net other postemployment benefit obligation:

General Fund
 Airport Fund
 Warehouse Fund

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

C. Pension Plans - Texas Municipal Retirement System, continued

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the underfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2010 valuation is effective for rates beginning January 2012). The annual pension cost and the net pension obligation (asset) are as follows:

	2012	2011	2010	2009	2008
Annual Req. Contrib.(ARC)	\$ 1,031,462	\$ 1,113,722	\$ 1,117,323	\$ 968,429	\$ 920,255
Contributions Made	\$ 1,031,462	\$ 1,113,722	\$ 1,117,323	\$ 968,429	\$ 920,255
NPO at End of Period	\$ -	\$ -	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	2012	2011
Actuarial Valuation Date	12/31/2011	12/31/2010
Actuarial Valuation of Assets	\$ 26,964,804	\$ 26,207,894
Actuarial Accrued Liability	\$ 36,052,009	\$ 35,433,051
Percentage Funded	74.8%	74.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 9,087,205	\$ 9,225,157
Annual Coverage Payroll	\$ 7,370,753	\$ 7,850,687
UAAL as Percentage of Covered Payroll	123%	118%

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

C. Pension Plans - Texas Municipal Retirement System, continued

	2011	2010	2009
Actuarial Valuation Date	12/31/2010	12/31/2009	12/31/2008
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 equivalent single amortization period	26 Years	27.1 Years	28 Years
Remaining Amortization Period	30 Years - Closed period	30 Years - Closed period	30 Years - Closed period
Asset Valuation Method	10 yr smoothed - market	10 yr smoothed - market	10 yr smoothed - market
Investment Rate of Return	7.5%	7.0%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.10%	2.10%	2.10%

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 on 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 \$34,993 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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

D. Other Post Employment Benefits, continued

accrued liabilities and the actuarial value of assets. As of the actuarial valuation date of October 1, 2011, the actuarial value of plan assets is zero dollars, the actuarial accrued liability is \$903,231, the total underfunded actuarial liability is \$903,231, 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 \$86,543. 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:

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)	4.25%

Three-Year Contribution Information

	2012	2011	2010
Annual Req. Contrib. (ARC)	\$ 97,206	\$ 109,927	\$ 105,310
Adjustment To ARC	(10,663)	(6,829)	(3,413)
Interest on net OPEB obligation	10,701	6,950	3,524
Contributions Made	(34,993)	(21,788)	(24,805)
Beginning OPEB Obligation	251,786	163,526	82,910
Ending OPEB Obligation	<u>\$ 314,037</u>	<u>\$ 251,786</u>	<u>\$ 163,526</u>

The funded status as of October 1, 2011, the most recent valuation date, is as follows:

	2012	2011	2010
Actuarial Valuation Date	10/01/11	10/01/08	10/01/08
Actuarial Valuation of Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability	\$ 903,231	\$ 1,108,971	\$1,028,210
Percentage Funded	0.0%	0.0%	0.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 903,231	\$ 1,108,971	\$1,028,210
Annual Coverage Payroll	\$ 7,370,753	\$ 7,850,687	\$ -
UAAL as Percentage of Covered Payroll	12%	14%	14%

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, 2012

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, 2012, 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 contribution rate to the TMRS SDBF, for the retiree portion, for the year-ended September 30, 2012, is shown below.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Req. Contrib. (ARC)	0.60%	0.80%	0.80%
Actual Contributions Made	0.60%	0.80%	0.80%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Subsequent Event

In October 2012, the City entered into a capital lease for vehicles and equipment. The amount acquired property cost and lease payable is \$409,502. New capital lease

In December 2012 the City sold \$2,545,000 of general obligation refunding bonds. Proceeds from sale of bonds were used to refund \$1,725,000 of Water and Sewer, series 1995A and \$780,000 of Water and Sewer, series 1999. The issuance of refunding bonds consist of \$2.1 million of serial bonds, payable semi-annual, maturing on august 15, 2015 and \$365 thousand term bonds due on August 15, 2017 and August 15, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PALESTINE, TEXAS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
Revenue:				
Taxes				
Property Taxes	\$ 5,007,123	\$ 5,007,123	\$ 5,111,690	\$ 104,567
Business Franchise Taxes	1,040,271	1,040,271	980,986	(59,285)
City Sales Taxes	4,890,630	4,890,630	5,010,002	119,372
Licenses, Permits and Fees	105,136	105,136	93,883	(11,253)
Intergovernmental Revenues	433,046	433,046	525,546	92,500
Charges For Services	42,908	42,908	39,420	(3,488)
Fines and Forfeitures	638,654	638,654	506,881	(131,773)
Investment	27,522	27,522	29,774	2,252
Other revenues	26,578	26,578	203,642	177,064
Total revenues	12,211,868	12,211,868	12,501,824	289,956
Expenditures:				
General Government	1,746,553	1,746,553	1,696,390	50,163
Public Safety	7,103,093	7,103,093	6,855,549	247,544
Community Services	3,184,109	3,184,109	3,156,847	27,262
Community Development	1,098,166	1,098,166	1,092,427	5,739
Total expenditures	13,131,921	13,131,921	12,801,213	330,708
Excess (deficiency) of revenues over (under) expenditures	(920,053)	(920,053)	(299,389)	620,664
Other financing sources (uses):				
Operating transfers in	831,882	831,882	858,765	26,883
Operating transfers out	(13,000)	-	(14,500)	(14,500)
Total other financing sources (uses)	818,882	831,882	844,265	12,383
Net change in fund balance	(101,171)	(88,171)	544,876	\$ 633,047
Fund balances, October 1			\$ 1,817,428	
Fund balances, September 30			\$ 2,362,304	

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 FUNDING PROGRESS TEXAS MUNICIPAL RETIREMENT SYSTEM September 30, 2012

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	2012	2011	2010	2009	2008
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Actuarial Value of Assets	\$26,964,804	\$26,207,894	\$14,523,310	\$13,418,753	\$14,185,105
Actuarial Accrued Liability	\$36,052,009	\$35,433,051	\$25,546,260	\$24,106,626	\$23,495,097
Percentage Funded	74.8%	74.0%	56.9%	55.7%	60.4%
Unfunded Actuarial Accrued Liability	\$9,087,205	\$9,225,157	\$11,022,950	\$10,687,873	\$9,309,992
Annual Covered Payroll	\$7,370,753	\$7,850,687	\$7,420,601	\$7,116,470	\$5,954,932
Unfunded Actuarial Accrued Liability (UAAL) % of Covered Payroll	123.3%	117.5%	148.5%	150.2%	156.3%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	1,031,462	1,113,722	1,186,240	968,429	920,255
Contributions Made	1,031,462	1,113,722	1,186,240	968,429	920,255
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF PALESTINE, TEXAS

SCHEDULE OF FUNDING PROGRESS (1)

POST-EMPLOYMENT HEALTHCARE BENEFITS

September 30, 2012

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
9/30/2009	10/1/2008	\$ -	\$ 944,042	\$ 944,042	0%	\$ 7,532,755	12.53%
9/30/2010	10/1/2008	\$ -	\$ 1,028,210	\$ 1,028,210	0%	\$ 7,509,706	13.69%
9/30/2011	10/1/2008	\$ -	\$ 1,108,971	\$ 1,108,971	0%	\$ 7,908,331	14.02%
9/30/2012	10/1/2011	\$ -	\$ 903,231	\$ 903,231	0%	\$ 7,370,753	12.25%

(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 preceding year.

COMBINING STATEMENTS AND SCHEDULES

CITY OF PALESTINE, TEXAS

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

Economic Development Grant Fund

Tourism and Civic Center Fund

Airport Fund

Cemetery Fund

Municipal Court Security and Technology Funds

Gates Pac Hug Grant Fund

Carnegie Library Memorial Fund

Tobacco Grant Fund

Equitable Sharing Federal Forfeitures Fund

Police Confiscated Money Fund

TxDOT Depot Enhancement Project Fund

Loop 256 Tree Project Fund

Community Forest Fund

Fitness Grant Fund

Search and Recovery Grant Fund

Fire Prevention Fund

Police Grants

Legacy in the Park

Generator Grant

Home Program

Debt Service Fund

Capital Projects Funds

CITY OF PALESTINE, TEXAS

COMBINING BALANCE SHEET (Page 1 of 2)

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

Special Revenue Funds

	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security	Municipal Court Technology
ASSETS						
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 167,982	\$ -	\$ -
Restricted cash and cash equivalents	372,223	115,162	-	-	4,725	1,911
Receivables	-	-	1,752	-	-	-
Restricted Receivables	-	27,328	-	-	-	-
Due from other funds	-	5,000	-	-	-	-
Restricted note receivables	27,227	-	-	-	-	-
Total Assets	\$ 399,450	\$ 147,490	\$ 1,752	\$ 167,982	\$ 4,725	\$ 1,911
LIABILITIES						
Accounts Payable	\$ -	\$ 2,945	\$ -	\$ -	-	\$ -
Deferred Revenues	-	-	-	-	-	-
Due to other funds	-	-	63,588	-	-	-
Total Liabilities	-	2,945	63,588	-	-	-
FUND BALANCES						
Nonspendable:						
Notes receivables	27,227	-	-	-	-	-
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Public safety	-	-	-	-	4,725	1,911
Other Purposes	-	-	-	-	-	-
Economic Development	372,223	144,545	-	-	-	-
Committed for:						
Community forest	-	-	-	-	-	-
Cemetery	-	-	-	167,982	-	-
Unassigned	-	-	(61,836)	-	-	-
Total Fund Balances	399,450	144,545	(61,836)	167,982	4,725	1,911
Total Liabilities and Fund Balances	\$ 399,450	\$ 147,490	\$ 1,752	\$ 167,982	\$ 4,725	\$ 1,911

<u>Gates Pac Hug Grant</u>	<u>Carnegie Library Memorial</u>	<u>Tobacco Grant</u>	<u>Equitable Sharing Federal Forfeitures</u>	<u>Police Confiscated Money</u>	<u>TXDot Depot Enhancement Project</u>	<u>Loop 256 Tree Project</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87	\$ -
1,238	14,820	4,507	31,687	57,170	-	1,033
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 1,238</u>	<u>\$ 14,820</u>	<u>\$ 4,507</u>	<u>\$ 31,687</u>	<u>\$ 57,170</u>	<u>\$ 87</u>	<u>\$ 1,033</u>
	\$ -	\$ -	\$ -	\$ 19,570	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	19,570	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,238	14,820	4,507	31,687	37,600	-	1,033
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	87	-
<u>1,238</u>	<u>14,820</u>	<u>4,507</u>	<u>31,687</u>	<u>37,600</u>	<u>87</u>	<u>1,033</u>
<u>\$ 1,238</u>	<u>\$ 14,820</u>	<u>\$ 4,507</u>	<u>\$ 31,687</u>	<u>\$ 57,170</u>	<u>\$ 87</u>	<u>\$ 1,033</u>

CITY OF PALESTINE, TEXAS

COMBINING BALANCE SHEET (Page 2 of 2)

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	Special Revenue Funds					
	Community Forest	Fitness Grant	Search and Recovery Grant	Fire Prevention	PD Grants	Legacy in the Park
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 56,309	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	-	5,937	7,422	7,687	10,664
Receivables	-	-	-	-	-	-
Restricted Receivables	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Note Receivables	-	-	-	-	-	-
Total Assets	\$ 56,309	\$ -	\$ 5,937	\$ 7,422	\$ 7,687	\$ 10,664
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ 697	\$ -	\$ -	\$ -
Deferred Revenues	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total Liabilities	-	-	697	-	-	-
FUND BALANCES						
Nonspendable:						
Notes receivables	-	-	-	-	-	-
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Public safety	-	-	5,240	7,422	7,687	-
Other Purposes	-	-	-	-	-	10,664
Economic Development	-	-	-	-	-	-
Committed for:						
Community forest	56,309	-	-	-	-	-
Cemetery	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total Fund Balances	56,309	-	5,240	7,422	7,687	10,664
Total Liabilities and Fund Balances	\$ 56,309	\$ -	\$ 5,937	\$ 7,422	\$ 7,687	\$ 10,664

Generator Grant	Home Program	Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
			2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 224,378
-	-	96,156	167,220	74,895	224,734	-	1,199,191
-	-	-	-	-	-	-	1,752
-	-	50,860	-	-	-	-	78,188
-	-	-	-	-	-	16,000	21,000
-	-	-	-	-	-	-	27,227
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,016</u>	<u>\$ 167,220</u>	<u>\$ 74,895</u>	<u>\$ 224,734</u>	<u>\$ 16,000</u>	<u>\$ 1,551,736</u>
\$ -	\$ -	\$ -	\$ 5,317	\$ -	\$ -	\$ 195,568	\$ 224,097
-	-	47,657	-	-	-	-	47,657
<u>15,247</u>	<u>34,395</u>	<u>-</u>	<u>209,618</u>	<u>823</u>	<u>-</u>	<u>79,774</u>	<u>403,445</u>
<u>15,247</u>	<u>34,395</u>	<u>47,657</u>	<u>214,935</u>	<u>823</u>	<u>-</u>	<u>275,342</u>	<u>675,199</u>
-	-	-	-	-	-	-	27,227
-	-	-	-	74,072	224,734	-	298,806
-	-	99,359	-	-	-	-	99,359
-	-	-	-	-	-	-	100,779
-	-	-	-	-	-	-	27,755
-	-	-	-	-	-	-	516,768
-	-	-	-	-	-	-	56,309
-	-	-	-	-	-	-	167,982
<u>(15,247)</u>	<u>(34,395)</u>	<u>-</u>	<u>(47,715)</u>	<u>-</u>	<u>-</u>	<u>(259,342)</u>	<u>(418,448)</u>
<u>(15,247)</u>	<u>(34,395)</u>	<u>99,359</u>	<u>(47,715)</u>	<u>74,072</u>	<u>224,734</u>	<u>(259,342)</u>	<u>876,537</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,016</u>	<u>\$ 167,220</u>	<u>\$ 74,895</u>	<u>\$ 224,734</u>	<u>\$ 16,000</u>	<u>\$ 1,551,736</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, 2012

	<u>Special Revenue Funds</u>				
	<u>Economic Development Grant</u>	<u>Tourism & Civic Center</u>	<u>Airport</u>	<u>Cemetery</u>	<u>Municipal Court Security</u>
Revenues:					
Taxes	\$ -	\$ 389,350	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Charges for services	-	-	206,684	17,250	-
Fines and forfeitures	-	-	-	-	5,382
Rentals	-	26,712	25,500	-	-
Investment revenue	1,386	68	6	200	7
Other revenue	-	-	5,670	-	-
Total revenues	<u>1,386</u>	<u>416,130</u>	<u>237,860</u>	<u>17,450</u>	<u>5,389</u>
Expenditures:					
Current					
Public Safety	-	-	-	-	16,959
Community Services	-	327,589	187,425	-	-
Community Development	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-
Total expenditures	<u>-</u>	<u>327,589</u>	<u>187,425</u>	<u>-</u>	<u>16,959</u>
Excess (deficiency) of revenues over (under) expenditures	1,386	88,541	50,435	17,450	(11,570)
Other financing sources (uses):					
Transfers in	-	16,000	13,000	-	-
Transfers out	-	(53,969)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(37,969)</u>	<u>13,000</u>	<u>-</u>	<u>-</u>
Net change in fund balance	1,386	50,572	63,435	17,450	(11,570)
Fund balances, October 1	398,064	93,973	(125,271)	150,532	16,295
Fund balances, September 30	<u>\$ 399,450</u>	<u>\$ 144,545</u>	<u>\$ (61,836)</u>	<u>\$ 167,982</u>	<u>\$ 4,725</u>

Municipal Court Technology	Gates Pac Hug Grant	Carnegie Library Memorial	Tobacco Grant	Equitable Sharing Federal Forfeitures	Police Confiscated Money	TXDot Depot Enhancement Project	Loop 256 Tree Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
7,230	-	-	-	-	8,199	-	-
-	-	-	-	-	-	-	-
-	2	11	7	136	42	12	1
-	-	2,291	-	-	-	-	-
<u>7,230</u>	<u>2</u>	<u>2,302</u>	<u>7</u>	<u>136</u>	<u>8,241</u>	<u>12</u>	<u>1</u>
2,092	-	-	-	-	-	-	-
-	-	1,096	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>2,092</u>	<u>-</u>	<u>1,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
5,138	2	1,206	7	136	8,241	12	1
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,138	2	1,206	7	136	8,241	12	1
(3,227)	1,236	13,614	4,500	31,551	29,359	75	1,032
<u>\$ 1,911</u>	<u>\$ 1,238</u>	<u>\$ 14,820</u>	<u>\$ 4,507</u>	<u>\$ 31,687</u>	<u>\$ 37,600</u>	<u>\$ 87</u>	<u>\$ 1,033</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, 2012

	Special Revenue Funds					
	Community Forest	Fitness Grant	Search and Recovery Grant	Fire Prevention	PD Grants	Legacy in the Park
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Rentals	-	-	-	-	-	-
Investment revenue	63	-	4	35	6	7
Miscellaneous revenue	-	787	-	-	-	13,701
Total revenues	<u>63</u>	<u>787</u>	<u>4</u>	<u>35</u>	<u>6</u>	<u>13,708</u>
Expenditures:						
Current						
Public Safety	-	-	-	-	1,590	-
Community Services	26,500	-	-	-	-	5,785
Community Development	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-	-
Total expenditures	<u>26,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,590</u>	<u>5,785</u>
Excess (deficiency) of revenues over (under) expenditures	(26,437)	787	4	35	(1,584)	7,923
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(26,437)	787	4	35	(1,584)	7,923
Fund balances, October 1	82,746	(787)	5,236	7,387	9,271	2,741
Fund balances, September 30	<u>\$ 56,309</u>	<u>\$ -</u>	<u>\$ 5,240</u>	<u>\$ 7,422</u>	<u>\$ 7,687</u>	<u>\$ 10,664</u>

Generator Grant	Home Program	Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
			2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	
\$ -	\$ -	\$ 862,681	\$ -	\$ -	\$ -	\$ -	\$ 1,252,031
-	-	-	611,163	-	-	-	611,163
-	-	-	-	-	-	-	223,934
-	-	-	-	-	-	-	20,811
-	-	-	-	-	-	-	52,212
-	-	880	177	295	462	252	4,059
-	-	-	-	-	2,449	8,663	33,561
-	-	863,561	611,340	295	2,911	8,915	2,197,771
-	-	-	-	-	-	-	20,641
15,247	-	-	-	-	-	-	563,642
-	1,350	-	839,487	-	-	376,187	1,217,024
-	-	430,000	-	-	-	-	430,000
-	-	423,098	-	-	-	-	423,098
15,247	1,350	853,098	839,487	-	-	376,187	2,654,405
(15,247)	(1,350)	10,463	(228,147)	295	2,911	(367,272)	(456,634)
-	-	-	-	-	-	40,000	69,000
-	-	-	-	-	-	-	(53,969)
-	-	-	-	-	-	40,000	15,031
(15,247)	(1,350)	10,463	(228,147)	295	2,911	(327,272)	(441,603)
-	(33,045)	88,896	180,432	73,777	221,823	67,930	1,318,140
<u>\$ (15,247)</u>	<u>\$ (34,395)</u>	<u>\$ 99,359</u>	<u>\$ (47,715)</u>	<u>\$ 74,072</u>	<u>\$ 224,734</u>	<u>\$ (259,342)</u>	<u>\$ 876,537</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, 2012

TOURISM AND CIVIC CENTER				
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes	\$ 373,000	\$ 373,000	\$ 389,350	\$ 16,350
Rentals	20,000	20,000	26,712	6,712
Interest	30	30	68	38
Total revenues	393,030	393,030	416,130	23,100
Expenditures:				
Community Services	355,075	355,075	327,589	27,486
Total expenditures	355,075	355,075	327,589	27,486
Excess (deficiency) of revenues over (under) expenditures	37,955	37,955	88,541	50,586
Other financing sources (uses)				
Transfers in	16,000	16,000	16,000	-
Transfers out	(53,969)	(53,969)	(53,969)	-
Total other financing sources (uses)	(37,969)	(37,969)	(37,969)	-
Net change in fund balance	\$ (14)	\$ (14)	50,572	\$ 50,586
Fund balances, October 1			93,973	
Fund balances, September 30			\$ 144,545	

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, 2012

	AIRPORT			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Rentals	34,445	34,445	25,500	(8,945)
Charges for services	164,520	164,520	206,684	42,164
Other revenue	5,670	5,670	5,670	0
Interest	3	3	6	3
Total revenues	204,638	204,638	237,860	33,222
Expenditures:				
Community Services	209,991	209,991	187,425	22,566
Total expenditures	209,991	209,991	187,425	22,566
Excess (deficiency) of revenues over (under) expenditures	(5,353)	(5,353)	50,435	55,788
Other financing sources (uses):				
Transfers in	13,000	13,000	13,000	-
Total other financing sources (uses)	13,000	13,000	13,000	-
Net change in fund balance	\$ 7,647	\$ 7,647	63,435	\$ 55,788
Fund balances, October 1			(125,271)	
Fund balances, September 30			\$ (61,836)	

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, 2012

	CEMETERY			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Charges for services	\$ 7,500	\$ 7,500	\$ 17,250	\$ 9,750
Interest	286	286	200	(86)
Total revenues	7,786	7,786	17,450	9,664
Expenditures:				
Community Services	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	7,786	7,786	17,450	9,664
Net change in fund balance	\$ 7,786	\$ 7,786	17,450	\$ 9,664
Fund balances, October 1			150,532	
Fund balances, September 30			\$ 167,982	

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, 2012

	MUNICIPAL COURT TECHNOLOGY			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Fines	\$ 10,300	\$ 10,300	\$ 7,230	\$ (3,070)
Total revenues	10,300	10,300	7,230	(3,070)
Expenditures:				
Public Safety	1,537	1,537	2,092	(555)
Total expenditures	1,537	1,537	2,092	(555)
Excess (deficiency) of revenues over (under) expenditures	8,763	8,763	5,138	(3,625)
Net change in fund balance	\$ 8,763	\$ 8,763	5,138	\$ (3,625)
Fund balances, October 1			(3,227)	
Fund balances, September 30			\$ 1,911	

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, 2012

	MUNICIPAL COURT SECURITY			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Fines	\$ 7,862	\$ 7,862	\$ 5,382	\$ (2,480)
Investment revenue	100	100	7	(93)
Total revenues	7,962	7,962	5,389	(2,573)
Expenditures:				
Public Safety	20,843	20,843	16,959	3,884
Total expenditures	20,843	20,843	16,959	3,884
Excess (deficiency) of revenues over (under) expenditures	(12,881)	(12,881)	(11,570)	1,311
Net change in fund balance	\$ (12,881)	\$ (12,881)	(11,570)	\$ 1,311
Fund balances, October 1			16,295	
Fund balances, September 30			\$ 4,725	

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, 2012

	DEBT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 851,479	\$ 851,479	\$ 862,681	\$ 11,202
Interest	1,677	1,677	880	(797)
Total revenues	<u>853,156</u>	<u>853,156</u>	<u>863,561</u>	<u>10,405</u>
Debt Service:				
Principal	430,000	430,000	430,000	-
Interest and fiscal charges	423,156	423,156	423,098	58
Total expenditures	<u>853,156</u>	<u>853,156</u>	<u>853,098</u>	<u>58</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>10,463</u>	<u>10,463</u>
Other financing sources (uses)				
Transfers in	607,214	607,214	-	(607,214)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>607,214</u>	<u>607,214</u>	<u>-</u>	<u>(607,214)</u>
Net change in fund balance	<u>\$ 607,214</u>	<u>\$ 607,214</u>	10,463	<u>\$ 10,463</u>
Fund balances, October 1			88,896	
Fund balances, September 30			<u>\$ 99,359</u>	

CITY OF PALESTINE, TEXAS
INTERNAL SERVICE FUNDS
September 30, 2012

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 ASSETS

INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2012

ASSETS	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
Current Assets:				
Cash and cash equivalents	\$ -	\$ 42,338	\$ 223,089	\$ 335,002
Due from other funds	13,500	23,029	-	501,675
Inventory	107,518	-	-	-
Total current assets	121,018	65,367	223,089	836,677
Noncurrent Assets:				
Capital Assets (net)	-	-	-	1,495,982
Total noncurrent assets	-	-	-	1,495,982
Total assets	\$ 121,018	\$ 65,367	\$ 223,089	\$ 2,332,659
 LIABILITIES				
Current Liabilities				
Accounts payable	\$ 26,215	\$ 267,167	\$ -	\$ 122,355
Due to other funds	133,886	645,953	116,300	-
Long-term debt - due less than a year	-	-	-	352,165
Total current liabilities	160,101	913,120	116,300	474,520
Noncurrent liabilities				
Long-term debt - due more than a year	-	-	-	420,700
Total noncurrent liabilities	-	-	-	420,700
Total Liabilities	160,101	913,120	116,300	895,220
 NET ASSETS				
Invested in capital assets, net of related debt	-	-	-	723,117
Unrestricted	(39,083)	(847,753)	106,789	714,322
Total net assets	(39,083)	(847,753)	106,789	1,437,439
Total Liabilities and Net Assets	\$ 121,018	\$ 65,367	\$ 223,089	\$ 2,332,659

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 329,365	\$ 929,794
-	538,204
-	107,518
<u>329,365</u>	<u>1,575,516</u>
-	1,495,982
-	1,495,982
<u>\$ 329,365</u>	<u>\$ 3,071,498</u>
\$ 5,077	\$ 420,814
-	896,139
-	352,165
<u>5,077</u>	<u>1,669,118</u>
-	420,700
-	420,700
5,077	2,089,818
-	723,117
324,288	258,563
<u>324,288</u>	<u>981,680</u>
<u>\$ 329,365</u>	<u>\$ 3,071,498</u>

CITY OF PALESTINE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
OPERATING REVENUES:				
Charges for Services and Sales	\$ 713,294	\$ 2,326,950	\$ 105,098	\$ 247,458
Total Operating Revenues	<u>713,294</u>	<u>2,326,950</u>	<u>105,098</u>	<u>247,458</u>
OPERATING EXPENSES:				
Cost of Services	732,184	2,086,770	112,383	9,008
Depreciation	-	-	-	302,087
Total Operating Expenses	<u>732,184</u>	<u>2,086,770</u>	<u>112,383</u>	<u>311,095</u>
Operating Income (loss)	<u>(18,890)</u>	<u>240,180</u>	<u>(7,285)</u>	<u>(63,637)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest revenue	-	307	304	701
Interest expense	-	-	-	(27,264)
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>307</u>	<u>304</u>	<u>(26,563)</u>
Net Income (Loss)	<u>(18,890)</u>	<u>240,487</u>	<u>(6,981)</u>	<u>(90,200)</u>
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Change in net assets	<u>(18,890)</u>	<u>240,487</u>	<u>(6,981)</u>	<u>(90,200)</u>
Net assets, October 1	<u>(20,193)</u>	<u>(1,088,240)</u>	<u>113,770</u>	<u>1,527,639</u>
Net assets, September 30	<u>\$ (39,083)</u>	<u>\$ (847,753)</u>	<u>\$ 106,789</u>	<u>\$ 1,437,439</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ -	\$ 3,392,800
<u>-</u>	<u>3,392,800</u>
22,088	2,962,433
-	302,087
<u>22,088</u>	<u>3,264,520</u>
<u>(22,088)</u>	<u>128,280</u>
262	1,574
-	(27,264)
<u>262</u>	<u>(25,690)</u>
<u>(21,826)</u>	<u>102,590</u>
-	-
<u>-</u>	<u>-</u>
<u>(21,826)</u>	<u>102,590</u>
346,114	879,090
<u>\$ 324,288</u>	<u>\$ 981,680</u>

CITY OF PALESTINE, TEXAS

COMBINING STATEMENT OF CASH FLOWS

ALL INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	CENTRAL WAREHOUSE	HEALTH INSURANCE	WORKERS' COMPENSATION	EQUIPMENT REPLACEMENT
Cash Flows from Operating Activities:				
Cash Received from Interfund services provided	\$ 713,294	\$ 2,326,950	\$ 105,098	\$ 247,458
Cash Payments to Other Suppliers for Goods and Services	(716,846)	(2,353,563)	(112,383)	(9,008)
Internal Activity-payments to other funds	100	6,824	113,000	(131,675)
Net Cash Provided (Used) by Operating Activities	(3,452)	(19,789)	105,715	106,775
Cash Flows from Non-capital Financing Activities:				
Transfer from (to) other funds	-	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	-	-	-	-
Cash Flows from Capital and Related Financing Activities:				
Principal paid on capital debt	-	-	-	(516,630)
Interest paid on capital debt	-	-	-	(27,264)
Proceeds from capital debt	-	-	-	740,001
Acquisition and Construction of Capital Assets	-	-	-	(340,769)
Proceeds from sale of assets	-	-	-	-
Net Cash Provided (Used) for Capital and Related Financing Activities	-	-	-	(144,662)
Cash Flows from Investing Activities:				
Interest received	-	307	304	701
Net Cash Provided (Used) for Investing Activities	-	307	304	701
Net Increase (Decrease) in Cash and Cash Equivalents	(3,452)	(19,482)	106,019	(37,186)
Cash and Cash Equivalents at Beginning of Year	3,452	61,820	117,070	372,188
Cash and Cash Equivalents at End of Year	\$ -	\$ 42,338	\$ 223,089	\$ 335,002
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	(18,890)	240,180	(7,285)	(63,637)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	-	-	-	302,087
Change in Assets and Liabilities				
Decrease (Increase) in Inventories	23,074	-	-	-
Increase (Decrease) in Accounts Payable	(7,736)	(266,793)	-	-
Increase (Decrease) in Interfund payable	100	6,824	113,000	(131,675)
Total Adjustments	15,438	(259,969)	113,000	170,412
Net Cash Provided (Used) by Operating Activities	\$ (3,452)	\$ (19,789)	\$ 105,715	\$ 106,775

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ -	\$ 3,392,800
(22,088)	(3,213,888)
-	(11,751)
<u>(22,088)</u>	<u>167,161</u>
-	-
-	-
-	(516,630)
-	(27,264)
-	740,001
-	(340,769)
-	-
<u>-</u>	<u>(144,662)</u>
262	1,574
<u>262</u>	<u>1,574</u>
(21,826)	24,073
<u>351,191</u>	<u>905,721</u>
<u>\$ 329,365</u>	<u>\$ 929,794</u>
(22,088)	128,280
	302,087
-	23,074
-	(274,529)
-	(11,751)
<u>-</u>	<u>38,881</u>
<u>\$ (22,088)</u>	<u>\$ 167,161</u>

CITY OF PALESTINE, TEXAS

STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Financial Trends (Page 90)

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity (Page 100)

These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.

Debt Capacity (Page 109)

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information (Page 118)

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information (Page 121)

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

CITY OF PALESTINE, TEXAS

NET ASSETS BY COMPONENT

Last Nine Years (1)
(accrual basis of accounting)

	2004	2005	2006	2007
Governmental activities				
Invested in capital assets, net of related debt	\$ 10,327,522	\$ 11,567,206	\$ 19,308,720	\$ 20,013,241
Restricted	610,025	729,738	3,035,457	2,486,869
Unrestricted	2,141,899	2,066,841	2,320,586	2,859,965
Total governmental activities net assets	\$ 13,079,446	\$ 14,363,785	\$ 24,664,763	\$ 25,360,075
Business-type activities				
Invested in capital assets, net of related debt	\$ 11,260,375	\$ 11,444,023	\$ 7,543,590	\$ 8,386,597
Restricted	1,384,946	1,384,343	1,482,108	5,227,496
Unrestricted	1,205,738	1,971,819	3,448,864	869,032
Total business-type activities net assets	13,851,059	14,800,185	12,474,562	14,483,125
Primary government				
Invested in capital assets, net of related debt	\$ 21,587,897	\$ 23,011,229	\$ 26,853,310	\$ 28,399,838
Restricted	1,994,971	2,114,081	4,517,565	7,714,365
Unrestricted	3,347,637	4,038,660	5,769,450	1,990,933
Total primary government net assets	\$ 26,930,505	\$ 29,163,970	\$ 37,140,325	\$ 38,105,136

(1) The requirement for statistical data is ten years; only nine years are available at this time.

2008	2009	2010	2011	2012
\$ 18,610,510	\$ 18,132,593	\$ 11,693,655	\$ 10,032,101	\$ 10,616,024
2,803,847	2,034,549	1,634,759	723,203	1,053,926
3,239,679	2,341,718	(385,377)	1,316,835	1,276,310
<u>\$ 24,654,036</u>	<u>\$ 22,508,860</u>	<u>\$ 12,943,037</u>	<u>\$ 12,072,139</u>	<u>\$ 12,946,260</u>
\$ 10,559,529	\$ 8,317,055	\$ 20,699,028	\$ 20,515,764	\$ 20,398,116
5,000,784	4,921,621	1,742,748	1,742,282	1,676,274
(1,585,785)	2,152,113	550,158	1,710,877	2,438,363
<u>13,974,528</u>	<u>15,390,789</u>	<u>22,991,934</u>	<u>23,968,923</u>	<u>24,512,753</u>
\$ 29,170,039	\$ 26,449,648	\$ 32,392,683	\$ 30,547,865	\$ 31,014,140
7,804,631	6,956,170	3,377,507	2,465,485	2,730,200
1,653,894	4,493,831	164,781	3,027,712	3,714,673
<u>\$ 38,628,564</u>	<u>\$ 37,899,649</u>	<u>\$ 35,934,971</u>	<u>\$ 36,041,062</u>	<u>\$ 37,459,013</u>

CITY OF PALESTINE, TEXAS
CHANGES IN NET ASSETS
Last Nine Years (1)
(accrual basis of accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses				
Governmental activities				
General administration	\$ 1,988,951	\$ 2,327,167	\$ 4,142,808	\$ 4,431,752
Public safety	5,178,158	5,598,656	6,094,959	6,270,765
Public works	1,382,572	1,626,749	4,035,525	4,054,891
Public services	2,102,890	2,482,315	889,718	836,065
Interest and fiscal agent fees on long-term debt	25,032	1,985	10,056	80,947
Total governmental activities expenses	<u>10,677,603</u>	<u>12,036,872</u>	<u>15,173,066</u>	<u>15,674,420</u>
Business-type activities				
Water	2,143,669	2,294,891	2,655,589	2,476,582
Sewer	2,748,778	2,648,743	2,549,152	2,404,759
Sanitation	1,299,158	1,384,719	1,345,980	1,353,622
Retail Mall	-	-	-	-
Total business-type activities expenses	<u>6,191,605</u>	<u>6,328,353</u>	<u>6,550,721</u>	<u>6,234,963</u>
Total primary government expenses	<u>\$ 16,869,208</u>	<u>\$ 18,365,225</u>	<u>\$ 21,723,787</u>	<u>\$ 21,909,383</u>
Program Revenues				
Governmental activities				
Charges for services				
General administration	\$ 25,868	\$ 1,240,990	\$ 919,662	\$ 3,311,686
Public safety	442,550	342,455	399,440	532,691
Public works	129,325	41,727	-	99,774
Public services	11,921	-	63,704	-
Operating grants and contributions	174,251	19,858	701,188	176,766
Capital grants and contributions	274,652	1,808,043	-	-
Total governmental activities program revenues	<u>1,058,567</u>	<u>3,453,073</u>	<u>2,083,994</u>	<u>4,120,917</u>
Business-type activities				
Charges for services				
Water	2,321,257	2,523,482	3,305,492	2,281,632
Sewer	2,588,049	2,618,174	3,165,392	3,258,601
Sanitation	1,334,114	1,270,144	1,309,758	1,481,679
Retail Mall	-	-	-	-
Capital grants and contributions	21,581	794,106	-	-
Total business-type activities program revenues	<u>6,265,001</u>	<u>7,205,906</u>	<u>7,780,642</u>	<u>7,021,912</u>
Total primary government program revenues	<u>\$ 7,323,568</u>	<u>\$ 10,658,979</u>	<u>\$ 9,864,636</u>	<u>\$ 11,142,829</u>
Net (Expense)/Revenue				
Governmental activities	\$ (9,619,036)	\$ (8,583,799)	\$ (13,089,072)	\$ (11,553,503)
Business-type activities	73,396	877,553	1,229,921	786,949
Total primary government net expense	<u>\$ (9,545,640)</u>	<u>\$ (7,706,246)</u>	<u>\$ (11,859,151)</u>	<u>\$ (10,766,554)</u>

2008	2009	2010	2011	2012
\$ 5,484,794	\$ 2,819,673	\$ 1,746,493	\$ 2,256,316	\$ 1,914,617
6,941,372	7,098,875	7,670,153	6,923,063	6,768,221
3,989,453	4,440,357	4,710,114	2,748,876	1,869,932
1,627,997	1,085,381	1,601,529	3,374,158	3,840,239
112,466	184,033	486,914	266,496	447,410
<u>18,156,082</u>	<u>15,628,319</u>	<u>16,215,203</u>	<u>15,568,909</u>	<u>14,840,419</u>
2,514,307	2,610,965	2,921,553	3,237,448	3,609,771
2,665,440	2,726,919	2,975,436	3,018,876	2,932,205
1,548,345	1,816,866	2,547,891	2,755,960	2,525,215
-	-	190,662	355,287	372,031
<u>6,728,092</u>	<u>7,154,750</u>	<u>8,635,542</u>	<u>9,367,571</u>	<u>9,439,222</u>
<u>\$ 24,884,174</u>	<u>\$ 22,783,069</u>	<u>\$ 24,850,745</u>	<u>\$ 24,936,480</u>	<u>\$ 24,279,641</u>
\$ 3,342,159	\$ -	\$ -	\$ -	\$ -
433,608	782,793	471,100	451,736	527,692
109,157	140,105	294,902	97,124	93,883
-	-	182,925	398,235	494,344
953,473	787,002	285,923	274,365	245,836
-	-	175,280	457,124	733,953
<u>4,838,397</u>	<u>1,709,900</u>	<u>1,410,130</u>	<u>1,678,584</u>	<u>2,095,708</u>
2,887,211	2,672,023	2,833,492	3,369,784	3,031,365
3,328,682	3,390,278	3,367,278	3,305,560	3,522,466
1,641,887	1,850,445	2,272,629	2,817,587	2,545,058
-	-	346,914	498,691	513,575
-	-	148,334	681,996	1,214,975
<u>7,857,780</u>	<u>7,912,746</u>	<u>8,968,647</u>	<u>10,673,618</u>	<u>10,827,439</u>
<u>\$ 12,696,177</u>	<u>\$ 9,622,646</u>	<u>\$ 10,378,777</u>	<u>\$ 12,352,202</u>	<u>\$ 12,923,147</u>
\$ (13,317,685)	\$ (13,918,419)	\$ (14,805,073)	\$ (13,890,325)	\$ (12,744,711)
1,129,688	757,996	333,105	1,306,047	1,388,217
<u>\$ (12,187,997)</u>	<u>\$ (13,160,423)</u>	<u>\$ (14,471,968)</u>	<u>\$ (12,584,278)</u>	<u>\$ (11,356,494)</u>

CITY OF PALESTINE, TEXAS

CHANGES IN NET ASSETS (Continued)

Last Nine Years (1)
(accrual basis of accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Revenues and Other Changes in Net Assets				
Governmental activities				
Taxes				
Property taxes, levied for general purposes	\$ 4,399,904	\$ 4,192,801	\$ 4,762,127	\$ 5,120,546
Sales taxes	3,903,844	4,403,347	4,483,437	4,953,746
Franchise and local taxes	1,147,691	1,140,131	1,282,695	1,145,511
Investment earnings	35,915	81,859	182,654	414,244
Other revenues	-	-	-	231,151
Transfers	114,331	50,000	292,824	681,067
Total governmental activities	<u>9,601,685</u>	<u>9,868,138</u>	<u>11,003,737</u>	<u>12,546,265</u>
Business-type activities				
Investment earnings	81,155	121,573	272,669	164,617
Other revenues	-	-	-	-
Transfers	(114,331)	(50,000)	(292,824)	(681,067)
Total business-type activities	<u>(33,176)</u>	<u>71,573</u>	<u>(20,155)</u>	<u>(516,450)</u>
Total primary government	<u>\$ 9,568,509</u>	<u>\$ 9,939,711</u>	<u>\$ 10,983,582</u>	<u>\$ 12,029,815</u>
Change in Net Assets				
Governmental activities	\$ (17,351)	\$ 1,284,339	\$ (2,085,335)	\$ 992,762
Business-type activities	40,220	949,126	1,209,766	270,499
Total primary government	<u>\$ 22,869</u>	<u>\$ 2,233,465</u>	<u>\$ (875,569)</u>	<u>\$ 1,263,261</u>

(1) The requirement for statistical data is ten years; only nine years are available at this time.

2008	2009	2010	2011	2012
\$ 5,622,807	\$ 6,196,642	\$ 5,780,079	\$ 5,894,097	\$ 6,084,060
5,306,804	4,991,964	5,118,332	5,425,434	5,399,352
1,250,748	922,516	1,227,490	1,147,029	1,005,088
266,580	81,553	41,719	20,004	33,833
148,441	189,189	283,610	(37,566)	237,203
16,266	(608,621)	(7,211,980)	713,974	859,296
<u>12,611,646</u>	<u>11,773,243</u>	<u>5,239,250</u>	<u>13,162,972</u>	<u>13,618,832</u>
116,045	49,644	56,060	13,945	14,909
-	-	-	-	-
(16,266)	608,621	7,211,980	(713,974)	(859,296)
<u>99,779</u>	<u>658,265</u>	<u>7,268,040</u>	<u>(700,029)</u>	<u>(844,387)</u>
<u>\$ 12,711,425</u>	<u>\$ 12,431,508</u>	<u>\$ 12,507,290</u>	<u>\$ 12,462,943</u>	<u>\$ 12,774,445</u>
\$ (706,039)	\$ (2,145,176)	\$ (9,565,823)	\$ (727,353)	\$ 874,121
1,229,467	1,416,261	7,601,145	606,018	543,830
<u>\$ 523,428</u>	<u>\$ (728,915)</u>	<u>\$ (1,964,678)</u>	<u>\$ (121,335)</u>	<u>\$ 1,417,951</u>

CITY OF PALESTINE, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund				
Reserved	\$ 25,662	\$ 23,684	\$ 23,950	\$ 20,639
Unreserved	3,058,723	1,967,574	1,654,016	2,439,054
Nonspendable	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>\$ 3,084,385</u>	<u>\$ 1,991,258</u>	<u>\$ 1,677,966</u>	<u>\$ 2,459,693</u>
All Other Governmental Funds				
Reserved	\$ 714,078	\$ 597,896	\$ 733,692	\$ 87,905
Unreserved, reported in:				
Special Revenue funds	268,891	(172,735)	419,413	909,569
Capital project funds	(335,178)	-	-	378,817
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 647,791</u>	<u>\$ 425,161</u>	<u>\$ 1,153,105</u>	<u>\$ 1,376,291</u>

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 21,242	\$ 25,498	\$ -	\$ 500,000	\$ -	\$ -
3,110,581	3,407,232	2,950,450	1,202,987	-	-
-	-	-	-	500,000	500,000
-	-	-	-	1,317,428	1,862,304
<u>\$ 3,131,823</u>	<u>\$ 3,432,730</u>	<u>\$ 2,950,450</u>	<u>\$ 1,702,987</u>	<u>\$ 1,817,428</u>	<u>\$ 2,362,304</u>
\$ 84,853	\$ 91,979	\$ 93,758	\$ 177,356	\$ -	\$ -
2,029,889	709,914	793,803	548,703	-	-
372,127	2,001,954	1,139,154	993,075	-	-
-	-	-	-	47,882	527,227
-	-	-	-	1,131,302	1,043,467
-	-	-	-	301,208	224,291
-	-	-	-	(162,255)	1,443,856
<u>\$ 2,486,869</u>	<u>\$ 2,803,847</u>	<u>\$ 2,026,715</u>	<u>\$ 1,719,134</u>	<u>\$ 1,318,137</u>	<u>\$ 3,238,841</u>

CITY OF PALESTINE, TEXAS
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
Last Ten Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Taxes	\$ 9,103,990	\$ 9,559,688	\$ 9,686,702	\$ 10,528,259
Permits, licenses, and fees	73,511	76,851	92,470	63,704
Fines and forfeitures	366,694	365,699	342,455	399,440
Charges for services	174,070	158,241	181,321	307,737
Intergovernmental	1,259,561	750,555	896,362	701,188
Contributions	3,493	12,982	19,858	6,698
Investment earnings	71,887	47,509	81,859	158,956
Other revenues	12,937	8,873	205,368	391,402
Total revenues	<u>11,066,143</u>	<u>10,980,398</u>	<u>11,506,395</u>	<u>12,557,384</u>
Expenditures				
General government	2,054,890	2,235,205	2,363,075	2,092,684
Public safety	5,188,344	5,192,252	5,504,847	3,794,959
Community Services	1,844,988	1,874,152	1,898,992	3,135,525
Community Development	2,566,036	1,840,563	1,812,413	2,789,718
Miscellaneous	-	-	-	-
Debt service				
Principal	755,675	838,559	57,237	79,298
Interest	70,020	27,533	1,985	10,056
Total expenditures	<u>12,479,953</u>	<u>12,008,264</u>	<u>11,638,549</u>	<u>11,902,240</u>
Excess of revenues over (under) expenditures	(1,413,810)	(1,027,866)	(132,154)	655,144
Other Financing Sources (Uses)				
Transfers in	1,130,603	1,551,798	990,748	453,968
Transfers out	(490,130)	(1,437,467)	(595,602)	(270,000)
Issuance of debt	169,580	-	-	-
Sale of capital assets	4,518	-	-	-
Total other financing sources	<u>814,571</u>	<u>114,331</u>	<u>395,146</u>	<u>183,968</u>
Net change in fund balances	<u>\$ (599,239)</u>	<u>\$ (913,535)</u>	<u>\$ 262,992</u>	<u>\$ 839,112</u>
Debt service as a percentage of noncapital expenditures	6.62%	7.21%	0.51%	0.75%

2007	2008	2009	2010	2011	2012
\$ 11,259,246	\$ 12,168,737	\$ 12,146,353	\$ 12,077,583	\$ 12,474,120	\$ 12,354,709
99,774	109,157	140,105	182,925	97,124	93,883
532,691	433,608	399,809	471,100	428,985	527,692
158,331	412,370	382,984	294,902	492,661	315,566
176,766	953,473	787,002	461,203	731,489	1,136,709
-	-	-	-	-	-
360,970	240,195	76,272	41,719	20,004	33,833
231,151	148,441	189,189	283,610	67,332	237,203
<u>12,818,929</u>	<u>14,465,981</u>	<u>14,121,714</u>	<u>13,813,042</u>	<u>14,311,715</u>	<u>14,699,595</u>
1,915,793	2,464,310	1,991,090	1,613,752	1,883,257	1,696,390
5,975,910	6,867,995	6,919,847	7,044,526	6,763,420	6,876,190
3,383,267	3,942,560	4,440,357	4,522,774	3,773,019	3,720,489
1,473,358	2,773,036	1,793,349	1,360,079	1,951,956	2,309,451
-	-	-	-	-	-
150,000	175,000	220,000	260,000	390,000	430,000
95,433	74,263	168,808	131,975	550,590	423,098
<u>12,993,761</u>	<u>16,297,164</u>	<u>15,533,451</u>	<u>14,933,106</u>	<u>15,312,242</u>	<u>15,455,618</u>
(174,832)	(1,831,183)	(1,411,737)	(1,120,064)	(1,000,527)	(756,023)
946,739	723,968	324,933	524,945	896,810	927,765
(170,410)	(274,900)	(172,611)	(7,736,925)	(182,836)	(68,469)
-	2,000,000	-	6,777,000	-	-
-	-	-	-	-	-
<u>776,329</u>	<u>2,449,068</u>	<u>152,322</u>	<u>(434,980)</u>	<u>713,974</u>	<u>859,296</u>
<u>\$ 601,497</u>	<u>\$ 617,885</u>	<u>\$ (1,259,415)</u>	<u>\$ (1,555,044)</u>	<u>\$ (286,553)</u>	<u>\$ 103,273</u>
1.89%	1.53%	2.50%	2.62%	6.45%	6.18%

CITY OF PALESTINE, TEXAS
TAX REVENUES BY SOURCE, GOVERNMENTAL ACTIVITIES (1)
Last Ten Years
(accrual basis of accounting)

<u>Function</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Property	\$ 4,372,312	\$ 4,452,111	\$ 4,212,222	\$ 4,762,127
Sales	3,461,454	3,679,836	4,103,081	4,483,437
Franchise fee	1,038,266	1,168,928	1,071,133	1,282,695
Occupancy	231,958	258,813	300,266	237,989
	<u>\$ 9,103,990</u>	<u>\$ 9,559,688</u>	<u>\$ 9,686,702</u>	<u>\$ 10,766,248</u>

(1) Includes General, Special Revenue, and Debt Service Funds.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	Change 2012-2011
\$ 4,793,386	\$ 5,274,420	\$ 5,690,379	\$ 5,731,761	\$ 5,894,097	\$ 6,084,060	3.22%
4,953,746	5,306,804	4,991,964	4,760,522	5,004,661	5,010,002	0.11%
1,145,511	1,250,748	1,082,219	1,227,490	1,147,029	1,005,088	-12.37%
<u>366,603</u>	<u>336,765</u>	<u>381,791</u>	<u>357,810</u>	<u>322,711</u>	<u>327,589</u>	<u>1.51%</u>
<u>\$ 11,259,246</u>	<u>\$ 12,168,737</u>	<u>\$ 12,146,353</u>	<u>\$ 12,077,583</u>	<u>\$ 12,368,498</u>	<u>\$ 12,426,739</u>	<u>2.31%</u>

CITY OF PALESTINE, TEXAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Property	\$ 481,852,930	\$ 498,828,469	\$ 602,346,707	\$ 640,861,547
Personal Property	188,933,506	163,945,359	173,779,102	183,054,500
Mineral and Utiities	-	-	25,678,570	24,982,800
Less: Tax Exempt Property	-	-	(119,015,965)	(128,431,847)
 Total Taxable Assessed Value (1)	 <u>\$ 670,786,436</u>	 <u>\$ 662,773,828</u>	 <u>\$ 682,788,414</u>	 <u>\$ 720,467,000</u>
 Total Direct Tax Rate	 \$ 0.64110	 \$ 0.60000	 \$ 0.6000	 \$ 0.6200

Source: Anderson County Certified /Certified Tax Roll.

(1) Property is assessed at actual value; therefore, the assessed values are equal to actual value.
Taxrates are per \$100 of assessed value.

2007	2008	2009	2010	2011	2012
\$ 663,232,487	\$ 683,038,987	\$ 721,785,209	\$ 771,012,377	\$ 717,089,610	\$ 768,999,161
194,836,601	233,640,967	262,419,857	263,675,724	272,204,728	280,115,687
25,579,300	25,559,470	25,847,230	30,696,822	30,890,772	32,114,504
(125,262,296)	(136,938,297)	(145,262,913)	(175,568,521)	(117,307,104)	(176,157,108)
<u>\$ 758,386,092</u>	<u>\$ 805,301,127</u>	<u>\$ 864,789,383</u>	<u>\$ 889,816,402</u>	<u>\$ 902,878,006</u>	<u>\$ 905,072,244</u>
\$ 0.6200	\$ 0.6390	\$ 0.6390	\$ 0.6390	\$ 0.6390	\$ 0.6390

CITY OF PALESTINE, TEXAS
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Palestine by fund:				
General	\$ 0.55060	\$ 0.56180	\$ 0.60000	\$ 0.62000
Debt service	0.09050	0.07930	-	-
Total Direct Rates	<u>\$ 0.64110</u>	<u>\$ 0.64110</u>	<u>\$ 0.60000</u>	<u>\$ 0.62000</u>
Palestine Independent School District	\$ 1.60500	\$ 1.62040	\$ 1.61760	\$ 1.48550
Westwood Independent School District	1.39900	1.33700	1.33700	1.22500
School Average	<u>\$ 1.50200</u>	<u>\$ 1.47870</u>	<u>\$ 1.47730</u>	<u>\$ 1.35525</u>
Anderson County (2)	0.46690	0.46690	0.46690	0.51880
Total Direct and Overlapping Rates (1)	<u>\$ 2.61000</u>	<u>\$ 2.58670</u>	<u>\$ 2.54420</u>	<u>\$ 2.49405</u>

Tax rates per \$100 of assessed valuation
Source: Anderson County Appraisal District

(1) Rates are weighted average of rates in effect in the Palestine Independent School District and the Westwood Independent School District

(2) Overlapping rates are those of local and county governments that apply within the City of Palestine

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 0.58740	\$ 0.60840	\$ 0.59440	\$ 0.54500	\$ 0.53480	\$ 0.54687
<u>0.03260</u>	<u>0.03060</u>	<u>0.04460</u>	<u>0.09400</u>	<u>0.10420</u>	<u>0.09213</u>
<u>\$ 0.62000</u>	<u>\$ 0.63900</u>	<u>\$ 0.63900</u>	<u>\$ 0.63900</u>	<u>\$ 0.63900</u>	<u>\$ 0.63900</u>
\$ 1.17000	\$ 1.29070	\$ 1.54900	\$ 1.54900	\$ 1.56600	\$ 1.56600
<u>1.00500</u>	<u>1.04000</u>	<u>1.04000</u>	<u>1.17000</u>	<u>1.17000</u>	<u>1.17000</u>
<u>\$ 1.08750</u>	<u>\$ 1.16535</u>	<u>\$ 1.29450</u>	<u>\$ 1.35950</u>	<u>\$ 1.36800</u>	<u>\$ 1.36800</u>
0.51110	0.51110	0.48645	0.48645	0.49870	0.49870
<u>\$ 2.21860</u>	<u>\$ 2.31545</u>	<u>\$ 2.41995</u>	<u>\$ 2.48495</u>	<u>\$ 2.50570</u>	<u>\$ 2.50570</u>

CITY OF PALESTINE, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Ten Years Ago

Property Tax Payer	2012			2003		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
Wal-mart Stores, Inc.	\$ 46,015,134	1	5.08%	\$ 62,144,327	1	9.26%
Palestine Principle Healthcare	13,139,827	2	1.45%	12,767,940	2	1.90%
Wal-mart Stores, East LP	10,253,142	3	1.13%	10,573,520	3	1.58%
Oncor Electric Delivery Co	10,002,069	4	1.11%	-		0.00%
Palestine Principle Healthcare, LTD	9,993,160	5	1.10%	9,811,455	5	1.46%
Ben E Keith Beers	9,368,598	6	1.04%	7,206,780	8	1.07%
Lowes of Palestine	9,189,269	7	1.02%	-		0.00%
Wal-mart Super Center	8,412,963	8	0.93%	9,093,630	6	1.36%
Wal-mart Stores Real Estate Business Trust	7,898,512	9	0.87%	7,257,690	7	1.08%
Union Pacific Railroad	7,562,707	10	0.84%	6,049,560	9	0.90%
Beidenham Realty Co, Inc.			0.00%	4,526,820	10	0.69%
Texas Utilities Electric Company			0.00%	10,467,740	4	1.56%
Subtotal	<u>131,835,381</u>		<u>14.57%</u>	<u>139,899,462</u>		<u>20.86%</u>
Other Taxpayers	\$ <u>773,236,863</u>		<u>85.43%</u>	\$ <u>530,886,974</u>		<u>79.14%</u>
	<u>\$ 905,072,244</u>		<u>100.00%</u>	<u>\$ 670,786,436</u>		<u>100.00%</u>

Source: Anderson County Tax Assessor-Collector's records.

CITY OF PALESTINE, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Tax levy	\$ 4,372,312	\$ 4,452,111	\$ 4,212,222	\$ 4,762,127
Current tax collected	4,053,595	4,117,630	3,956,129	4,473,892
Percent of current tax collections	92.71%	92.49%	93.92%	93.95%
Delinquent tax collections	173,804	154,172	256,093	223,509
Total tax collections	<u>\$ 4,227,399</u>	<u>\$ 4,271,802</u>	<u>\$ 4,212,222</u>	<u>\$ 4,697,401</u>
Total collections as a percentage of current levy	96.69%	95.95%	100.00%	98.64%
Outstanding delinquent taxes	6,969	7,086	13,933	21,613
Outstanding delinquent taxes as percentage of current levy	0.159%	0.159%	0.331%	0.454%

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 4,701,994	\$ 5,155,813	\$ 5,526,004	\$ 5,686,977	\$ 5,776,207	\$ 5,828,456
4,495,517	4,982,436	5,330,293	5,432,161	5,609,450	5,671,371
95.61%	96.64%	96.46%	95.52%	97.11%	97.30%
196,892	169,221	190,151	146,427	146,112	132,744
<u>\$ 4,692,409</u>	<u>\$ 5,151,657</u>	<u>\$ 5,520,444</u>	<u>\$ 5,578,588</u>	<u>\$ 5,755,562</u>	<u>\$ 5,804,115</u>
99.80%	99.92%	99.90%	98.09%	99.64%	99.58%
20,879	64,726	64,726	60,942	65,051	35,649
0.444%	1.255%	1.171%	1.072%	1.126%	0.612%

CITY OF PALESTINE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
Capital Leases	\$ -	\$ -	\$ -	\$ -
Certificates of obligation	23,030	23,886	-	2,000,000
Subtotal	<u>23,030</u>	<u>23,886</u>	<u>-</u>	<u>2,000,000</u>
Business-Type Activities:				
Capital Leases	-	-	-	-
Certificates of obligation	-	-	-	-
Revenue bonds	14,251,960	13,540,000	12,815,000	12,070,000
Subtotal	<u>14,251,960</u>	<u>13,540,000</u>	<u>12,815,000</u>	<u>12,070,000</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 14,274,990</u>	<u>\$ 13,563,886</u>	<u>\$ 12,815,000</u>	<u>\$ 14,070,000</u>
 PERSONAL INCOME (1)	 \$ 18,950	 \$ 18,950	 \$ 18,950	 \$ 18,950
 DEBT AS A PERCENTAGE OF PERSONAL INCOME	 4.460%	 4.030%	 3.770%	 4.090%
 POPULATION	 17,796	 17,761	 17,954	 18,166
 DEBT PER CAPITA	 \$ 802	 \$ 764	 \$ 714	 \$ 775

(1) Personal income data is not available.

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

2007	2008	2009	2010	2011	2012
\$ 520,479	\$ 518,531	\$ 372,207	\$ 704,512	\$ 554,301	\$ 772,863
1,850,000	3,675,000	3,455,000	9,972,000	9,582,000	9,152,000
<u>2,370,479</u>	<u>4,193,531</u>	<u>3,827,207</u>	<u>10,676,512</u>	<u>10,136,301</u>	<u>9,924,863</u>
902,626	739,821	569,926	384,278	199,920	-
-	-	-	-	-	2,005,000
16,775,000	15,725,000	15,255,000	14,997,408	13,519,208	9,978,630
<u>17,677,626</u>	<u>16,464,821</u>	<u>15,824,926</u>	<u>15,381,686</u>	<u>13,719,128</u>	<u>11,983,630</u>
<u>\$ 20,048,105</u>	<u>\$ 20,658,352</u>	<u>\$ 19,652,133</u>	<u>\$ 26,058,198</u>	<u>\$ 23,855,429</u>	<u>\$ 21,908,493</u>
\$ 18,950	\$ 18,950	\$ 18,950	\$ 17,457	\$ 17,457	\$ 17,457
5.820%	6.000%	5.710%	7.977%	7.303%	6.707%
18,166	18,166	18,166	18,712	18,712	18,712
\$ 1,104	\$ 1,137	\$ 1,082	\$ 1,393	\$ 1,275	\$ 1,171

CITY OF PALESTINE, TEXAS
RATIO OF NET BONDED DEBT TO ASSESSED VALUE,
NET BONDED DEBT PER CAPITA, AND ASSESSED
AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
NET TAXABLE ASSESSED VALUE				
All property	\$ 670,786,436	\$ 662,773,828	\$ 682,788,414	\$ 720,467,000
NET BONDED DEBT				
Gross bonded debt	\$ 783,040	\$ -	\$ -	\$ 2,000,000
Less debt service funds	88,459	43,138	65,490	69,271
Net Bonded Debt	<u>\$ 694,581</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930,729</u>
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	0.10%	0.00%	0.00%	0.27%
POPULATION	17,796	17,761	17,954	18,166
NET BONDED DEBT PER CAPITA	\$ 39	\$ -	\$ -	\$ 106

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 758,386,092	\$ 805,301,127	\$ 864,789,383	\$ 889,816,402	\$ 902,878,006	\$ 905,072,244
\$ 1,850,000	\$ 3,675,000	\$ 3,455,000	\$ 9,972,000	\$ 9,582,000	\$ 11,157,000
84,853	91,979	93,758	92,981	88,896	96,156
<u>\$ 1,765,147</u>	<u>\$ 3,583,021</u>	<u>\$ 3,361,242</u>	<u>\$ 9,879,019</u>	<u>\$ 9,493,104</u>	<u>\$ 11,060,844</u>
0.23%	0.44%	0.39%	1.11%	1.05%	1.22%
18,166	18,166	18,166	18,166	18,166	18,166
\$ 97	\$ 197	\$ 185	\$ 544	\$ 523	\$ 609

CITY OF PALESTINE, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

Governmental Unit	Gross Debt Less Interest & Reemption Funds	Percentage of Debt Applicable to City of Palestine	Estimated Share of Overlapping Debt
City of Palestine	\$ 11,833,707	100.000%	\$ 11,833,707
Palestine Independent School District	66,820,098	67.640%	45,197,114
Total direct and overlapping debt			\$ 57,030,821

The percentages of overlapping debt applicable is estimated using assessed property values. Applicable percentages were estimated by determining portion of the City's taxable assessed value that is within the government's boundaries and dividing it by the City's total taxable assessed value.

CITY OF PALESTINE, TEXAS
LEGAL DEBT MARGIN INFORMATION
Last Nine Years (1)

	2004	2005
Debt limit	\$ 31,138,691	\$ 34,139,421
Total net debt applicable to limit	-	-
Legal debt margin	<u>\$ 31,138,691</u>	<u>\$ 34,139,421</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 905,072,244
Debt limit (5% of assessed value)	45,253,612
Debt applicable to limit:	
General obligation bonds	11,157,000
Less: amount set aside for repayment of general obligation debt	(96,156)
Total net debt applicable to limit	11,060,844
Legal debt margin	<u>\$ 34,192,768</u>

Note: The City's Home Rule Charter (1983), Section 7.07 limits all bonded debt to no more than 5% of the assessed valuation.

(1) The requirement for statistical data is ten years; only nine years are available at this time.

2006	2007	2008	2009	2010	2011	2012
\$ 36,023,350	\$ 37,919,305	\$ 40,265,056	\$ 43,239,469	\$ 34,425,839	\$ 35,650,796	\$ 34,192,768
1,930,729	1,765,147	3,583,021	3,361,242	9,879,019	9,493,104	11,060,844
<u>\$ 34,092,621</u>	<u>\$ 36,154,158</u>	<u>\$ 36,682,035</u>	<u>\$ 39,878,227</u>	<u>\$ 24,546,820</u>	<u>\$ 26,157,692</u>	<u>\$ 23,131,924</u>
5.36%	4.66%	8.90%	7.77%	28.70%	26.63%	32.35%

CITY OF PALESTINE, TEXAS
PLEDGED-REVENUE COVERAGE
Last Ten Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Gross revenues (1)	\$ 4,845,877	\$ 4,909,306	\$ 5,141,656	\$ 6,470,884
Operating expenses (2)	<u>3,017,747</u>	<u>3,024,382</u>	<u>3,094,799</u>	<u>4,663,964</u>
Net revenues available for Debt Service	<u>\$ 1,828,130</u>	<u>\$ 1,884,924</u>	<u>\$ 2,046,857</u>	<u>\$ 1,806,920</u>
DEBT SERVICE REQUIREMENTS (3)				
Principal	849,245	868,263	897,822	894,754
Interest	<u>592,324</u>	<u>522,430</u>	<u>489,698</u>	<u>540,777</u>
Total	<u>\$ 1,441,569</u>	<u>\$ 1,390,693</u>	<u>\$ 1,387,520</u>	<u>\$ 1,435,531</u>
Coverage	1.27	1.36	1.48	1.26

- (1) Total revenues including interest, excluding tap fees
- (2) Total operating expenses less depreciation
- (3) Includes revenue bonds only

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 5,540,233	\$ 6,215,893	\$ 6,062,301	\$ 6,245,675	\$ 6,688,587	\$ 6,537,275
<u>4,338,722</u>	<u>4,627,523</u>	<u>4,751,462</u>	<u>3,966,644</u>	<u>4,489,337</u>	<u>4,632,580</u>
<u>\$ 1,201,511</u>	<u>\$ 1,588,370</u>	<u>\$ 1,310,839</u>	<u>\$ 2,279,031</u>	<u>\$ 2,199,250</u>	<u>\$ 1,904,695</u>
975,458	1,050,000	1,180,000	1,180,000	1,405,000	995,578
<u>542,619</u>	<u>552,224</u>	<u>221,002</u>	<u>476,158</u>	<u>439,017</u>	<u>246,564</u>
<u>\$ 1,518,077</u>	<u>\$ 1,602,224</u>	<u>\$ 1,401,002</u>	<u>\$ 1,656,158</u>	<u>\$ 1,844,017</u>	<u>\$ 1,242,142</u>
0.79	0.99	0.94	1.38	1.19	1.53

CITY OF PALESTINE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Years

Fiscal Year Ending	Population(1)	County Personal Income(2) In thousands	Per Capita Income	Median Age (1)	School Enrollment(3)	Unemployment Rate(4)
2003	17,796	337,234	18,950	34	5,108	8.1%
2004	17,761	336,571	18,950	34	5,104	7.1%
2005	17,954	363,138	20,226	34	5,101	6.4%
2006	18,166	367,426	20,226	34	5,189	5.2%
2007	18,166	367,426	20,226	34	5,164	4.9%
2008	18,166	367,426	20,226	34	4,861	5.7%
2009	18,166	367,426	20,226	34	4,931	5.7%
2010	18,712	367,426	19,636	34	4,927	8.7%
2011	18,712	367,426	19,636	34	4,835	9.5%
2012	18,712	367,426	19,636	34	4,836	8.3%

Data sources:

- (1) US Census
- (2) State of Texas - Health and Human Services
- (3) Palestine Independent School District and Westwood Independent School District
- (4) Texas Workforce Commission/ TAMU Real Estate Research Center

CITY OF PALESTINE, TEXAS
PRINCIPAL EMPLOYERS
Current Year (1)

Employer

Anderson County
Capgemini
City of Palestine
Texas Department of Criminal Justice
Palestine Independent School District
Palestine Regional Medical & Rehabilitation
Cartmell Home for Aged
Westwood Independent School District
Wal-Mart Distribution
Wal-Mart Retail

(1) The requirement is for the current year and nine years ago, only the current year is available at this time.

CITY OF PALESTINE, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>General Fund:</u>										
Administration	6.5	7.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Finance	13.0	12.5	11.5	11.0	10.0	10.0	12.0	13.0	13.0	13.0
Police Department	41.0	41.0	47.0	45.5	45.5	46.5	48.5	51.0	51.0	52.0
Fire Department	39.0	39.0	39.0	39.0	39.0	39.0	39.0	41.0	41.0	41.0
Public Works	14.5	14.5	14.0	15.0	14.0	17.0	17.0	18.0	18.0	18.0
Parks	9.5	9.5	12.0	12.0	12.0	10.0	10.0	10.0	10.0	10.0
Library	14.0	14.0	13.0	13.0	13.0	13.0	13.5	14.0	14.0	14.0
Code Enforcement	7.0	7.0	7.0	7.0	7.0	7.5	7.0	7.0	7.0	7.0
General Fund Total	144.5	144.5	149.5	148.5	145.5	148.0	152.0	159.0	159.0	160.0
<u>Enterprise & Other Funds:</u>										
Tourism	3.0	3.0	3.0	2.5	3.5	3.5	4.0	4.0	4.0	4.0
Airport	-	-	-	-	-	1.5	1.5	2.0	2.0	-
Central warehouse	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Water	17.5	17.5	18.5	19.5	20.5	19.5	18.5	19.0	19.0	19.0
Sewer	12.8	12.3	12.5	11.5	11.5	11.0	10.0	10.0	10.0	10.0
Sanitation	-	-	1.0	1.0	-	2.0	2.0	2.0	2.0	2.0
Retail	-	-	-	-	-	-	-	-	-	-
Enterprise Fund Total	34.3	33.8	36.0	35.5	36.5	38.5	37.0	38.0	38.0	36.0
TOTAL CITY POSITIONS	<u>178.8</u>	<u>178.3</u>	<u>185.5</u>	<u>184.0</u>	<u>182.0</u>	<u>186.5</u>	<u>189.0</u>	<u>197.0</u>	<u>197.0</u>	<u>196.0</u>

Source: Various City Departments

CITY OF PALESTINE, TEXAS
OPERATING INDICATORS BY FUNCTION / PROGRAM
Last Nine Years (1)

Function / Program	2004	2005	2006
Police			
Arrests	1,597	1,463	1,645
Accident reports	501	522	543
Citations	3,140	3,378	4,062
Offense reports	3,601	3,685	3,860
Calls for service	22,944	24,475	25,475
Fire			
Emergency responses	845	915	819
Fire incidents	106	153	116
Average response time	3:00	3:00	3:00
Water			
Number of users	7,150	7,157	7,200
Source	surface	surface	surface
Average daily consumption			
(millions of gallons)	2.170	3.000	3.000
Total consumption (millions of gallons)	1,067	1,151	1,215
Peak daily consumption			
(millions of gallons)	5.990	5.990	8.640
Sewer			
Average daily sewage treatment			
(millions of gallons)	2.22	2.16	1.68
Total treatment (millions of gallons)	223.82	235.83	241.03
Peak daily consumption			
(millions of gallons)	4.33	5.00	4.18

Source: Various City Departments

(1) The requirement for statistical data is ten years; only nine years are available at this time.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1,550	1,285	1,449	1,498	1,224	1,017
554	533	515	543	442	470
2,149	1,840	2,734	1,488	1,378	1,488
3,715	3,896	3,620	3,394	3,839	2,124
24,607	24,375	23,944	30,239	24,416	24,046
656	747	917	997	1,119	1,097
131	117	141	141	152	103
3:00	3:00	3:00	3:00	3:00	3:00
7,261	7,176	7,420	7,421	7,421	7,421
surface	surface	surface	surface	surface	surface
2.557	2.746	2.704	2.796	3.301	3.955
933	2,446	987	1,020	1,068	1,444
3.949	5.334	6.278	5.155	7.659	7.659
2.24	1.73	2.03	0.93	0.25	3.045
816	630.56	740.95	340.19	930.96	1,111
6.78	3.89	5.97	4.68	5.53	6.012

CITY OF PALESTINE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM
Last Nine Years (1)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Function / Program				
Police				
Stations	1	1	1	1
Patrol units	3	3	3	3
Fire stations				
Number of stations	4	4	4	4
Number of stations (operational)	3	3	3	3
Other public works				
Streets (miles - centerlines)	134.2	134.2	134.2	134.2
Streetlights	2,044	2,044	2,044	2,044
Parks and recreation				
Parks	14	14	14	14
Parks acreage	104.8	104.8	104.8	104.8
Community Forest	1	1	1	1
Community Forest acreage	900.0	900.0	900.0	900.0
Swimming pools	2	2	2	2
Baseball / softball diamonds	8	8	8	8
Soccer Fields	1	1	1	1
Tennis courts	6	6	6	6
Basketball courts	4	4	4	4
Water				
Water mains (miles)	123.1	123.1	123.1	123.1
Fire hydrants	990	990	990	990
Storage capacity (millions of gallons)	3.27	3.27	3.27	3.27
Plant capacity (millions of gallons)	9.00	9.00	9.00	9.00
Sewer				
Sanitary sewers (miles)	118.7	118.7	118.7	118.7
Storm sewers (miles)	9.0	9.0	9.0	9.0
Treatment capacity (millions of gallons)	4.60	4.60	4.60	4.60

Source: Various City Departments

(1) The requirement for statistical data is ten years; only nine years are available at this time.

2008	2009	2010	2011	2012
1	1	1	1	1
3	3	3	3	3
4	4	4	4	4
3	3	3	3	3
134.2	134.2	134.2	134.2	134.2
2,044	2,044	2,044	2,044	2,044
14	14	14	14	14
104.8	104.8	104.8	104.8	161.0
1	1	1	1	1
900.0	900.0	900.0	900.0	900.0
2	2	2	2	1
8	8	8	8	15
1	1	1	1	1
6	6	6	6	6
4	4	4	4	4
123.1	123.1	123.1	123.1	123.1
990	990	990	990	990
3.27	3.27	3.27	3.27	3.27
9.00	9.00	9.00	9.00	9.00
118.7	118.7	118.7	118.7	118.7
9.0	9.0	9.0	9.0	9.0
4.60	4.60	4.60	4.60	4.60

**GOVERNMENTAL REPORTS AND
OTHER REQUIRED COMMUNICATION**

GOVERNMENTAL REPORTS

FRANK CAMPOS, CPA

A Professional Limited Liability Company

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

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

I have audited the 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 (the City) for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued my report thereon dated April 30, 2013. I conducted my 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.

Internal Control Over Financial Reporting

Management of the City of Palestine, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I considered the deficiencies described in accompanying schedule of findings and responses to be material weaknesses, 12-5 to 12 -10.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies, 12-1 to 12-4.

Member of Texas Society of CPAs and American Institute of CPAs

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Compliance and Other Matters

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

I noted certain matters that I reported to management of the City of Palestine, Texas, in a separate letter dated April 30, 2013.

The City's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the City's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frank Campos

Frank Campos, CPA, PLLC
Palestine, TX

April 30, 2013

FRANK CAMPOS, CPA

A Professional Limited Liability Company

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and City Council
Palestine, Texas

Compliance

I have audited the compliance of the City of Palestine, Texas (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its' major federal programs is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City's compliance with those requirements.

In my opinion, the city of Palestine, Texas, complied, in all material respects, with the compliance requirements referred to above that that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

The management of the City of Palestine, Texas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

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My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described on the attached schedule of findings and questioned costs, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-5 to 12-10 to be material weaknesses

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-1 to 12-4 to be significant deficiencies

The City of Palestine, Texas' responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the City of Palestine, Texas' responses and, accordingly, I express no opinion on the responses.

Schedule of Expenditures of Federal Awards

I have audited the 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, 2012, and have issued my report thereon dated April 30, 2013, which contained unqualified opinions on the financial statements. My audit was performed for the purposes of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by *U.S Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the board of directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frank Campos

Frank Campos, CPA
April 30, 2013

CITY OF PALESTINE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weakness identified?	Yes
• Significant deficiency identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with section 501(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
ARRA 11.307 20.106	ARRA Economic Adjst/ Diaster Approp. Program Airport Project Participation Agreement

Dollar threshold used to distinguish between Type A and type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	No
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CITY OF PALESTINE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

B. FINDINGS BASIC FINANCIAL STATEMENT

SIGNIFICANT DEFICIENCIES

12-1 FUNDS OUT OF BALANCE

Condition

During the audit I noticed a couple of small funds that did not balance (i.e. debits did not equal credits).

Criteria

Internal controls should be in place to provide reasonable assurance that trial balance balances (i.e. debits equal credits).

Effect

Because of the failure of proper review of financials by city staff, monthly financial reporting may be inaccurate.

Recommendation

The City needs to review trial balances to ensure funds balance.

12-2 CUSTOMER SERVICE CONTROLS

Condition

During the audit I observed keys to cash registers unattended in cash drawer locks. I was also informed the key to Kiosk was lost, but the lock was not changed out. Although cameras in the customer service department limit risk, the cameras do not eliminate risk.

Criteria

Keys to cash drawers should not be left unattended.

Effect

Because of the keys being left unattended, risk of theft increases.

Recommendation

The City should remind the cashiers the importance of securing their keys to cash drawer's and cash bags. The City should consider replacing the lock to Kiosk.

12-3 UTILITY BILLING CUTOFFS

Condition

At the end of 2012, when the billing supervisor was on medical leave for six weeks, cut-off of customer's utility accounts were not done for past due accounts.

Criteria

Employees should follow established procedures and cut-off delinquent customers accounts as required.

Effect

Write-off of customer account balances could increase substantially if cut-off procedures are followed.

Recommendation

City staff should be reminded that they still need to perform regular tasks when supervisors are absent unless the City Manager exempts certain tasks.

12-4 REPORTING OF VACATION FOR DEPARTMENT HEADS

Condition

Review of department supervisors payroll revealed two department heads with no vacation reported for 2012. One had not taken vacation and the other had failed to report vacation taken to the payroll clerk. Vacation taken was reported to the City Manager.

Criteria

Employees should report to the payroll clerk vacation taken.

Effect

When an employee leaves city employment, employee is entitled to be compensated for vacation accrued. Employee would be overpaid for vacation accrued.

Recommendation

New hires should be properly trained on reporting time off to the payroll clerk. The City Manager should also inform department supervisors on City policy of reporting time off for salaried employees.

MATERIAL WEAKNESSES

12-5 INTERFUND TRANSFERS AND INTERFUND RECEIVABLES/PAYABLES

Condition

Interfund transfers and interfund receivables/payables did not reconcile at year-end.

Criteria

Internal controls should be in place to provide reasonable assurance that interfund receivables/payables reconcile.

Effect

Because of the failure of proper review of financials by city staff, monthly financial reporting may be inaccurate.

Recommendation

Interfund transfers and interfund receivables/payables should be reviewed each month to make sure the accounts reconcile.

12-6 AIRPORT GRANT FUND

Condition

The City has not recorded airport grant transactions in the general ledger during 2012. The grant is administered by the state. Financial reports are sent to the City by the State, so the City can record transactions.

Criteria

Procedures should be in place to provide reasonable assurance that all transactions are recorded.

Effect

Because of the failure to record all transactions, financial statements could be issued that are materially incorrect.

Recommendation

The City needs to record transactions in the general ledger from financial reports sent by the state.

12-7 MISCELLANEOUS ACCOUNT RECEIVABLE

Condition

The City's miscellaneous account receivable subledger does not agree with the general ledger.

Criteria

Internal controls should be in place to provide reasonable assurance that miscellaneous account receivables reconciles with the general ledger.

Effect

Because of the failure of proper review of miscellaneous receivables, misstatement of revenue and collections can be misstated.

Recommendation

The miscellaneous account receivable subledger should be analyzed and corrected. Once corrected, the miscellaneous account receivable subledger should be reviewed each month to make sure the account reconciles to the general ledger.

12-8 MISCELLANEOUS ACCOUNT RECEIVABLE INVOICING

Condition

During the audit, I discovered that invoicing of 2012-13 billings, PEDC salaries, county for library, and PISD security had not been billed until the early months of 2013. Some of the billings should be done monthly and others annually.

Criteria

Internal controls should be in place to provide reasonable assurance that billings of services are done timely.

Effect

Because of the billings of services listed above are not done timely, risk of nonpayment increases and the city's cash flow can be adversely effected.

Recommendation

The City should bill monthly for monthly services provided. The City should also bill at the beginning of the fiscal year for annual services.

12-9 CASH MANAGEMENT

Condition

At the end of the fiscal year, the pool cash bank account per bank reconciliation showed a negative cash balance of \$1,887,820. The bank statement balance at end the of the fiscal year was a positive \$379,000.

Criteria

Internal controls should be in place to provide reasonable assurance that bank accounts have enough funds to cover checks when written.

Effect

Because of the failure of proper control over cash balances, the City could become overdrawn on bank accounts.

Recommendation

Although the bank did not show the City's bank account overdrawn, the City should review its cash balances and requirements weekly and transfer funds to checking accounts on a timely basis to ensure accounts will not be overdrawn.

12-10 BANK RECONCILIATIONS

Condition

The City's main bank account was not reconciled monthly in a timely manner. Errors and fraud will take longer to discover when accounts are not reconciled timely. Also, monthly financial reports may contain errors since accounts are not reconciled.

Criteria

The City's bank accounts should be reconciled monthly in a timely manner.

Effect

Because of the failure to reconcile bank accounts in a timely manner, errors or fraud may not be recognized in a timely manner.

Recommendation

Bank reconciliations need to be prepared and reviewed monthly in a timely manner to ensure all cash transactions are recorded.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE.

CITY OF PALESTINE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANTOR NO.	FEDERAL EXPENDITURES
U.S. DEPARTMENT HO USING AND URBAN DEVELOPMENT			
COMMUNITY DEVELOPMENT PROGRAM	14.228	710549	193,427
TOTAL U.S. DEPARTMENT HO USING AND URBAN DEVELOPMENT			<u>193,427</u>
ENVIRONMENTAL PROTECTION AGENCY			
PASS-THROUGH TEXAS WATER DEVELOPMENT BOARD			
CLEAN WATER REVOLVING LOAN FUND	66.458	LO70021	-
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>-</u>
U.S. DEPARTMENT OF COMMERCE			
ARRA -ECONOMIC ADJST ./			
DISASTER APPROP. PROGRAM	ARRA 11.307	08-79-04433	1,034,116
PASS-THROUGH TEXAS STATE LIBRARY			
ARCHIVES COMMISSION			
BROADBAND TECHNOLOGY			
OPPORTUNITIES PROGRAM	11.557	461-11025	61,919
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>1,096,035</u>
U.S. DEPARTMENT OF TRANSPORTATION			
AIRPORT PROJECT PARTICIPATION AGREEMENT	20.106	1XXAV101	611,163
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>611,163</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,900,625</u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards include the federal grant activity of the City of Palestine, Texas, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

CITY OF PALESTINE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

PRIOR YEAR FINDINGS
MATERIAL WEAKNESSES

1. COUNTY CONTRIBUTION FOR LIBRARY

Finding

The City and the County have an agreement for the County to pay \$75,000 annually for support of the City Library. The amount is budgeted every year on the City's budget. The City failed to bill the County \$75,000 for annual support until the auditor informed the Finance Department, during audit process, the County had not paid.

Recommendation

The City needs to bill the County annually at the first of the fiscal year. The City also needs to review the budget to actual to ensure payments are received.

Management Response

The City will bill Anderson County annually at the beginning of each fiscal year. The City staff will compare budget to actual to ensure payment has been received.

Status

During 2012, the County was billed and payment was received for 2011 and 2012. The County was not billed timely for 2013.

2. LICENSES AND PERMITS

Finding

Licenses and permits are issued by the Development Department after proof of payment. Licenses and permits are printed out of a computer. No preprinted forms with control numbers or computer control numbers that are tied to a receipt are used. Cashiers have entered cash receipts for licenses and permits into receipting system differently, making it difficult to determine if licenses and permits have been paid. Licenses and permits can be issued without payment to cashiers and without oversight.

Recommendation

The City needs to develop a system to control licenses and permits issuance to make sure payment is received before licenses and permits are issued. Cashiers need to be retrained to post receipts for licenses and permits the same way. An alternative is for the Finance Department to perform internal testing on license and permits.

Management Response

The City will purchase a Business License module to eliminate control issues.

Status

Control implemented.

3. CIVIC CENTER RENTALS

Finding

Duties for collection of payment and scheduling of rentals for the Civic Center are done at the Civic Center with no oversight.

Recommendation

The City needs to develop a system to ensure payment is received for all rentals. Alternative is for the Finance Department to perform internal testing on rentals.

Management Response

Heather will provide a copy of the calendar of events at the Civic Center and Carnegie each month and Finance Staff will randomly observe the facility to determine usage.

Status

In progress.

4. POLICE EVIDENCE ROOM

Finding

Personnel in charge of Evidence Room keeps keys to Evidence Room with alarm switch in office drawer, unsecured. Office is left opened and keys and alarm switch are not secured. Officer in charge of maintaining inventory semi-annual and annually also has access to keys and alarm switch.

Recommendation

The City needs to keep Evidence Room keys and alarm switch secured. Officer in charge of maintaining inventory should have an employee outside of the police department count inventory with officer and sign off on inventory.

Management Response

An employee outside the department will assist in inventory count and keys to evidence room and alarm switch will be secured.

Status

Control implemented.

5. POLICE GRANTS

Finding

Prior officer in charge of police grants left abruptly without leaving passwords to grants reporting websites. Also, knowledge of grant requirements and grant documentation has been difficult to locate without passwords.

Recommendation

The City needs to have the supervisor of employee in charge of grant passwords be informed of password. Also, cross-training of employees on grants will cut down on confusion of grants after employee leaves.

Management Response

Passwords reestablished by the Finance Department.

Status

Control implemented.

6. MONTH END CLOSING PROCEDURES

Finding

It appeared the City lacked a formal process for closing the books at the end of each month. A number of adjustments were required at year-end during the audit process to correct general ledger account balances after the audit commenced. Accordingly, it did not appear that some subsidiary ledgers and other support were being compared to the general ledger on a monthly basis to ensure interim financial reporting was correct.

Recommendation

The City should develop a formal closing process at month-end, including reviewing supporting subsidiary ledgers and other supporting documents to determine accuracy and to ensure the general ledger is appropriately adjusted and the financial statements accurate.

Management Response

Finance Director will develop formal monthly closing schedule.

Status

In progress. However, the general ledger was in better condition than last year. Delays in audit field work occurred due to major accounts not being adjusted at year-end. Such as governmental receivables, utility receivables, governmental and utility notes payable, governmental and utility reserve for bad debts and other accounts.

7. MONTHLY REPORTING

Finding

Over the last several years, the City Council has not received monthly financial information on the City's major funds. The City Council needs timely, monthly financial information to make informed decisions on the City's finances.

Recommendation

Finance department should give the City Council timely, monthly reports on the City's major funds.

Management Response

Develop monthly reports for the City Council.

Status

Control implemented.

8. FINANCIAL STATEMENT PRESENTATION

Finding

The City has engaged a licensed certified public accounting firm to prepare and audit the City's annual financial report. The City ensures the quality of its annual financial report by engaging a qualified audit firm with particular experience in governmental audits and reading a preliminary draft of the report. The City does not have specific controls in place to separately review the selection and application of accounting principles and resulting disclosures and presentations with the financial statements. Although it is common within the government sector and most private companies to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified material.

Recommendation

The City should continue to read its annual financial report and ensure the quality of both the document and the preparer. No changes in operation are recommended.

Management Response

We concur with the recommendation.

9. AUDIT ADJUSTMENTS

Finding

In the normal course of the audit process the auditor recommends adjustments to the City's accounting records, as well as proposes other adjustments needed for preparing full accrual statements in compliance with GASB 34. The City does not have specific controls in place to eliminate all adjustments or to review other calculation required by GASB 34. Although it is common within the government sector and most private companies to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect. Since some adjustments and calculations may be material to the financial statements, this weakness in internal control would be classified material.

Recommendation

The City should continue to read its annual financial report and ensure the quality of both the document and the preparer. No changes in operation are recommended.

Management Response

We concur with the recommendation.

10. SEGREGATION OF DUTIES

Background

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the City can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the City.

Finding

As with other cities of the same staff size, there are instances where additional controls could be put in place if more personnel were available and further segregation in duties could be achieved. While the City's segregation of duties appear reasonable given the number of personnel, there are some inherent risks given the City's staff size.

This matter is being reported to comply with new reporting requirements pertaining to matters commonly known or previously reported.

Recommendation

The City should continue to evaluate opportunities for greater segregation of duties.

Management Response

We concur with the recommendation.



City of Palestine

CORRECTIVE ACTION PLAN

U.S. Department of Commerce

City of Palestine, Texas respectfully submits the following corrective action plan for the year ended September 30, 2012.

Frank Campos, CPA, PLLC
P.O. Box 232
Palestine, Texas 75802

Audit Period: September 30, 2012

The findings from the April 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT SIGNIFICANT DEFICIENCIES

12-1 Funds out of Balance

Recommendation: The City needs to review trial balances to ensure funds balance.

Action Taken: We concur with the recommendation. . All new funds will be setup by the Finance Accountant and reviewed monthly.

12-2 Customer Service Controls

Recommendation: The City should remind the cashiers the importance of securing their keys to cash drawer's and cash bags. City should consider replacing lock to Kiosk.

Action Taken: We concur with the recommendation. Training sessions with cashiers have taken place regarding importance of cashiers controls.

12-3. Utility Billing Cutoffs

Recommendation: City staff should be reminded that they still need to perform regular tasks when supervisors are absent unless the City Manager exempts certain tasks.

Action Taken: We concur with the recommendation..

12-4. Reporting Of Vacation For Department Heads

Recommendation: New hires should be properly trained on reporting time off to the payroll clerk. The City Manager should also inform department supervisors on City policy of reporting time off for salaried employees.

Action Taken: We concur with the recommendation.

MATERIAL WEAKNESSES

12-5. Interfund Transfers And Interfund Receivables/Payables

Recommendation: Interfund transfers and interfund receivables/payables should be reviewed each month to make sure the accounts reconcile.

Action Taken: We concur with the recommendation.

12-6. Airport Grant Fund

Recommendation: The City needs to record transactions in the general ledger from financial reports sent by the state.

Action Taken: We concur with the recommendation.

12-7. Miscellaneous Account Receivable

Recommendation: The miscellaneous account receivable subledger should be analyzed and corrected. Once corrected, the miscellaneous account receivable subledger should be reviewed each month to make sure the account reconciles to the general ledger.

Action Taken: We concur with the recommendation.

- 12-8. Miscellaneous Account Receivable Invoicing
- Recommendation: The City should bill monthly for monthly services provided. The City should also bill at the beginning of the fiscal year for annual services.
- Action Taken: We concur with the recommendation
- 12-9. Cash Management
- Recommendation: Although, the bank did not show the City's bank account overdrawn, the City should review its cash balances and requirements weekly and transfer funds to checking accounts on a timely basis to ensure accounts will not be overdrawn.
- Action Taken: We concur with the recommendation
- 12-10. Bank Reconciliations
- Recommendation: Bank reconciliations need to be prepared and reviewed monthly in a timely manner to ensure all cash transactions are recorded.
- Action Taken: We concur with the recommendation

If the U.S. Department of Commerce has questions regarding this plan, please call Elizabeth Saegert.

Sincerely yours,



Elizabeth Saegert, CPA
Finance Director

OTHER REQUIRED COMMUNICATION

FRANK CAMPOS, CPA

A Professional Limited Liability Company

MANAGEMENT LETTER

To the Honorable Mayor, City Council
And Management
City of Palestine, Texas

In planning and performing our audit of the 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, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered the City of Palestine's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified certain deficiencies in internal control that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The attached schedule lists the material weakness of the City of Palestine, Texas.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the comment designated in attached schedule of deficiencies in the City of Palestine, Texas's internal control to be significant deficiencies.

This communication is intended solely for the information and use of management, Mayor, City Council members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Frank Campos

Frank Campos, CPA
April 30, 2013

Member of Texas Society of CPAs and American Institute of CPAs

106 Trinity Place P.O. Box 232 Palestine, Texas 75801

Fax 903-723-2558

**CITY OF PALESTINE
SCHEDULE OF FINDINGS**

**CURRENT YEAR FINDINGS
SIGNIFICANT DEFICIENCIES**

1. FUNDS OUT OF BALANCE

Finding

During the audit I noticed a couple of small funds that did not balance (i.e. debits did not equal credits).

Recommendation

The City needs to review trial balances to ensure funds balance.

2. CUSTOMER SERVICE CONTROLS

Finding

During the audit I observed keys to cash registers unattended in cash drawer locks. I were also informed the key to Kiosk was lost, but the lock was not changed out. Although cameras in the customer service department the limit risk, the cameras do not eliminate risk.

Recommendation

The City should remind the cashiers the importance of securing their keys to cash drawer's and cash bags. The City should consider replacing lock to Kiosk.

3. UTILITY BILLING CUTOFFS

Finding

At the end of 2012, when the billing supervisor was on medical leave for six weeks, cut-off of customer's utility accounts were not done for past due accounts.

Recommendation

City staff should be reminded that they still need to perform regular tasks when supervisors are absent unless the City Manager exempts certain tasks.

4. REPORTING OF VACATION FOR DEPARTMENT HEADS

Finding

Review of department supervisors payroll revealed two department heads with no vacation reported for 2012. One had not taken vacation and the other had failed to report vacation taken to the payroll clerk. Vacation taken was reported to the City Manager.

Recommendation

New hires should be properly trained on reporting time off to the payroll clerk. The City Manager should also inform department supervisors on City policy of reporting time off for salaried employees.

**CURRENT YEAR FINDINGS
MATERIAL WEAKNESSES**

5. INTERFUND TRANSFERS AND INTERFUND RECEIVABLES/PAYABLES

Finding

Interfund transfers and interfund receivables/payables did not reconcile at year-end.

Recommendation

Interfund transfers and interfund receivables/payables should be reviewed each month to make sure the accounts reconcile.

6. AIRPORT GRANT FUND

Finding

The City has not recorded airport grant transactions in the general ledger during 2012. The grant is administered by the State. Financial reports are sent to the City by the State, so the City can record transactions.

Recommendation

The City needs to record transactions in the general ledger from financial reports sent by the State.

7. MISCELLANEOUS ACCOUNT RECEIVABLE

Finding

The City's miscellaneous account receivable subledger does not agree with the general ledger.

Recommendation

The miscellaneous account receivable subledger should be analyzed and corrected. Once corrected, the miscellaneous account receivable subledger should be reviewed each month to make sure the account reconciles to the general ledger.

8. MISCELLANEOUS ACCOUNT RECEIVABLE INVOICING

Finding

During the audit, I discovered that invoicing of 2012-13 billings, PEDC salaries, county for library, and PISD security had not been billed until early months of 2013. Some of the billings should be done monthly and others annually.

Recommendation

The City should bill monthly for monthly services provided. The City should also bill at the beginning of the fiscal year for annual services.

**CURRENT YEAR FINDINGS
MATERIAL WEAKNESSES, CONTINUED**

9. CASH MANAGEMENT

Finding

At the end of the fiscal year, the pool cash bank account per bank reconciliation showed a negative cash balance of \$1,887,820. The bank statement balance at end of the fiscal year was a positive \$379,000.

Recommendation

Although the bank did not show the City's bank account overdrawn, the City should review its cash balances and requirements weekly and transfer funds to checking accounts on a timely basis to ensure accounts will not be overdrawn.

10. BANK RECONCILIATIONS

Finding

The City's main bank account was not reconciled monthly in a timely manner. Errors and fraud will take longer to discover when accounts are not reconciled timely. Also, monthly financial reports may contain errors since accounts are not reconciled.

Recommendation

Bank reconciliations need to be prepared and reviewed monthly in a timely manner to ensure all cash transactions are recorded.

**PRIOR YEAR FINDINGS
MATERIAL WEAKNESSES**

11. COUNTY CONTRIBUTION FOR LIBRARY

Finding

The City and County have an agreement for the County to pay annually \$75,000 for support of the City Library. The amount is budgeted every year on the City's budget. The City failed to bill the County \$75,000 for annual support until the auditor informed the Finance Department, during the audit process, the County had not paid.

Recommendation

The City needs to bill the County annually at the first of the fiscal year. The City also needs to review budget to actual to ensure payments are received.

Management Response

The City will bill Anderson County annually at the beginning of each fiscal year. City staff will compare budget to actual to ensure payment has been received.

Status

During 2012, the County was billed and payment was received for 2011 and 2012. The County was not billed timely for 2013.

12. LICENSES AND PERMITS

Finding

Licenses and permits are issued by the Development Department after proof of payment. Licenses and permits are printed out of the computer. No preprinted forms with control numbers or computer control numbers that are tied to receipts are used. Cashiers have entered cash receipts for licenses and permits into the receipting system differently making it difficult to determine if licenses and permits have been paid. Licenses and permits can be issued without payment to cashiers and without oversight.

Recommendation

The City needs to develop a system to control licenses and permits issuance to make sure payment is received before licenses and permits are issued. Cashiers need to be retrained to post receipts for licenses and permits the same way. Alternative is for the Finance Department to perform internal testing on licenses and permits.

Management Response

The City will purchase a Business License module to eliminate control issues.

Status

Control implemented.

13. CIVIC CENTER RENTALS

Finding

Duties for collection of payment and scheduling of rentals for the Civic Center are done at the Civic Center with no oversight.

Recommendation

The City needs to develop a system to ensure payment is received for all rentals. Alternative is for the Finance Department to perform internal testing on rentals.

Management Response

Heather will provide a copy of the calendar of events at the Civic Center and Carnegie each month and the Finance Staff will randomly observe the facility to determine usage.

Status

In progress.

14. POLICE EVIDENCE ROOM

Finding

Personnel in charge of the evidence room keeps keys to the evidence room with alarm switch in the office drawer unsecured. Office is left opened and keys and alarm switch are not secured. Officer in charge of doing inventory semi-annual and annually also has access to keys and alarm switch.

Recommendation

The City needs to keep evidence room keys and alarm switch secured. Officer in charge of doing inventory should have an employee outside of the police department count inventory with the officer and sign off on inventory.

Management Response

An employee outside the department will assist in inventory count and keys to evidence room and alarm switch will be secured.

Status

Control implemented.

15. POLICE GRANTS

Finding

The prior officer in charge of police grants left abruptly without leaving passwords to grants reporting websites. Also, knowledge of grant requirements and grant documentation has been difficult to locate without passwords.

Recommendation

The City needs to have a supervisor of the employee in charge of grant passwords to be informed of passwords. Also, cross training of employees on grants will cut down on confusion of grants after an employee leaves.

Management Response

Passwords reestablished by the Finance Department.

Status

Control implemented.

16. MONTH END CLOSING PROCEDURES

Finding

It appeared the City lacked a formal process for closing books at the end of each month. A number of adjustments were required at year-end during the audit process to correct general ledger account balances after the audit commenced. Accordingly, it did not appear that some subsidiary ledgers and other support were being compared to the general ledger on a monthly basis to ensure interim financial reporting were correct.

Recommendation

The City should develop a formal closing process at month-end including reviewing supporting subsidiary ledgers and other supporting documents to determine accuracy and to ensure the general ledger is appropriately adjusted and the financial statements accurate.

Management Response

Finance Director will develop a formal monthly closing schedule.

Status

In progress. Delays in audit field work occurred due to major accounts not being adjusted at year end, such as governmental receivables, utility receivables, governmental and utility notes payable, governmental and utility reserve for bad debts and other accounts.

17. FINANCIAL STATEMENT PRESENTATION

Finding

The City has engaged a licensed certified public accounting firm to prepare and audit the City's annual financial report. The City ensures the quality of its annual financial report by engaging a qualified audit firm with particular experience in governmental audits and reading a preliminary draft of the report. The City does not have specific controls in place to separately review the selection and application of accounting principles and resulting disclosures and presentations with the financial statements. Although it is common within the government sector and most private companies to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified material.

Recommendation

The City should continue to read its annual financial report and ensure the quality of both the document and the preparer. No changes in operation are recommended.

Management Response

We concur with the recommendation.

18. AUDIT ADJUSTMENTS

Finding

In the normal course of the audit process the auditor recommends adjustments to the City's accounting records, as well as proposes other adjustments needed for preparing full accrual statements in compliance with GASB No. 34. The City does not have specific controls in place to eliminate all adjustments or to review other calculations required by GASB No. 34. Although it is common within the government sector and most private companies to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect. Since some adjustments and calculations may be material to the financial statements, this weakness in internal control would be classified material.

Recommendation

The City should continue to read its annual financial report and ensure the quality of both the document and the preparer. No changes in operation are recommended.

Management Response

We concur with the recommendation.

19. SEGREGATION OF DUTIES

Background

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the City can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the City.

Finding

As with other Cities of the same staff size, there are instances where additional controls could be put in place if more personnel were available and further segregation in duties could be achieved. While the City's segregation of duties appear reasonable given the number of personnel, there are some inherent risks given the City's staff size.

This matter is being reported to comply with new reporting requirements pertaining to matters commonly known or previously reported.

Recommendation

The City should continue to evaluate opportunities for greater segregation of duties.

Management Response

We concur with the recommendation.

OTHER MATTERS

1. DEFICIT FUND BALANCE

Finding

I noted the following funds reported a deficit fund balance:

<u>Fund</u>	<u>Deficit</u>
Airport	\$ 61,836
Generator grant	\$ 15,247
2006 Series Imp.	\$ 47,715
Capital Projects	\$ 259,342
Home Grant	\$ 34,395
Sanitation	\$ 462,379
Health Insurance	\$ 847,753
Central Warehouse	\$ 39,083

Recommendation

The City should adopt a fund balance policy, whereby each fund has an established target or reserve to meet the objective of that fund.

Status

In progress.

Health Insurance Fund - The Health insurance fund is self-insured. The general fund has loaned the health insurance fund \$450,000 (\$606,000 balance for 2011 and \$646,000 for 2012) to pay employee medical claims. The fund balance has a deficit balance of 847,753. The City should review its health insurance program and consider changing the plan so it is not self-insured. The City should also review employee health benefits to reduce City costs.

Sanitation Fund – The Sanitation fund has no cash and owes other funds \$670,549. The fund has made enough to cover direct operating expenses (\$19,864) but not enough to cover transfers to other funds as budgeted (\$324,849). In 2012 the fund had a net decrease in assets of \$304,985, resulting in a deficit fund balance of \$462,379.

FRANK CAMPOS, CPA

A Professional Limited Liability Company

The Auditor's Communication with Those Charged with Governance

April 30, 2013

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

We have audited the 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, for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 23, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Palestine, Texas, are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical water, sewer and sanitation revenues, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

The completion of the audit was delayed due to several factors as listed below:

1. City's September 30, 2012 pool cash account was not reconciled to until to the end of December 2012.
2. City's incomplete close out of books at year-end.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Member of Texas Society of CPAs and American Institute of CPAs

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the City Council and management of the City of Palestine, Texas, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Frank Campos

Frank Campos, CPA PLLC