

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF PALESTINE, TEXAS**

**For the Year Ended September 30, 2013**

**Officials Issuing Report:**

**Wendy Ellis, City Manager  
Elizabeth Saegert, Finance Director**

**CITY OF PALESTINE, TEXAS**  
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September 30, 2013

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***FINANCIAL SECTION***

# FRANK CAMPOS, CPA

A Professional Limited Liability Company

## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Palestine, TX

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Palestine, TX, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprises the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palestine, TX as of September 30, 2013, and the respective changes in financial position, and , where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member of Texas Society of CPAs and American Institute of CPAs

125 Church St. P.O. Box 2918 Palestine, Texas 75801

903-723-6064 Fax 903-723-7360

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-11 and 46 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, excluding budgeting information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palestine, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not required part of basic financial statements.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated July 10, 2014, on our consideration of the City of Palestine, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Palestine, Texas's internal control over financial reporting and compliance.

*Frank Campos*

Frank Campos, CPA, PLLC  
July 10, 2014

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

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**September 30, 2013**

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, 2013. 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 Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

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

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



**CITY OF PALESTINE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
**September 30, 2013**

**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, 2013**

**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 \$37,257,600 as of year-end in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year. The largest portion of the City's net position (82%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

SUMMARY OF STATEMENT OF NET POSITION

	Governmental Activities		Business -type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,446,448	\$ 5,000,034	\$ 8,526,993	\$ 8,385,299	\$ 13,973,441	\$ 13,385,333
Capital assets	19,060,612	20,540,887	29,164,382	29,253,810	48,224,994	49,794,697
Total assets	24,507,060	25,540,921	37,691,375	37,639,109	62,198,435	63,180,030
Other liabilities	721,826	1,054,778	723,637	993,425	1,445,463	2,048,203
Long-term liabilities	10,935,293	11,539,883	12,560,079	12,132,931	23,495,372	23,672,814
Total liabilities	11,657,119	12,594,661	13,283,716	13,126,356	24,940,835	25,721,017
Net Position:						
Invested in capital assets,						
net of related debt	9,669,453	10,616,024	20,924,948	20,398,116	30,594,401	31,014,140
Restricted	1,271,388	1,053,926	1,412,470	1,676,274	2,683,858	2,730,200
Unrestricted	1,909,100	1,276,310	2,070,241	2,438,363	3,979,341	3,714,673
Total net position	\$ 12,849,941	\$ 12,946,260	\$ 24,407,659	\$ 24,512,753	\$ 37,257,600	\$ 37,459,013

A portion of the primary government's net assets, \$2,683,858, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$3,979,341, 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, 2013**

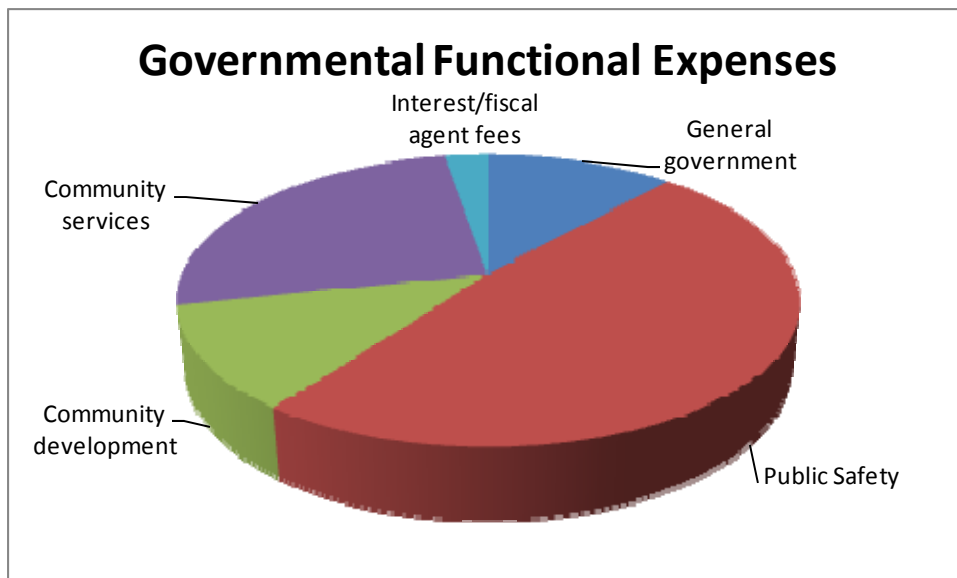
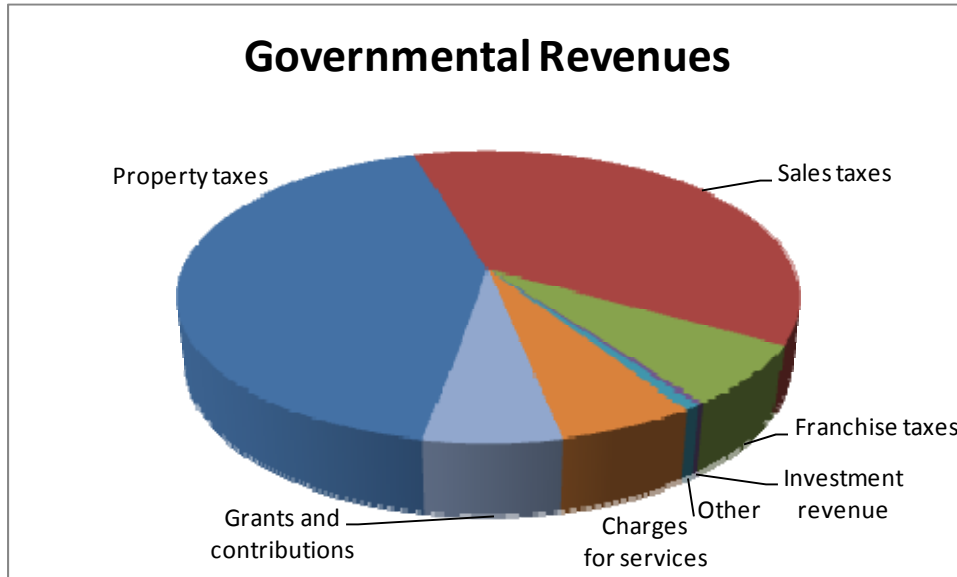
**Statement of Activities**

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

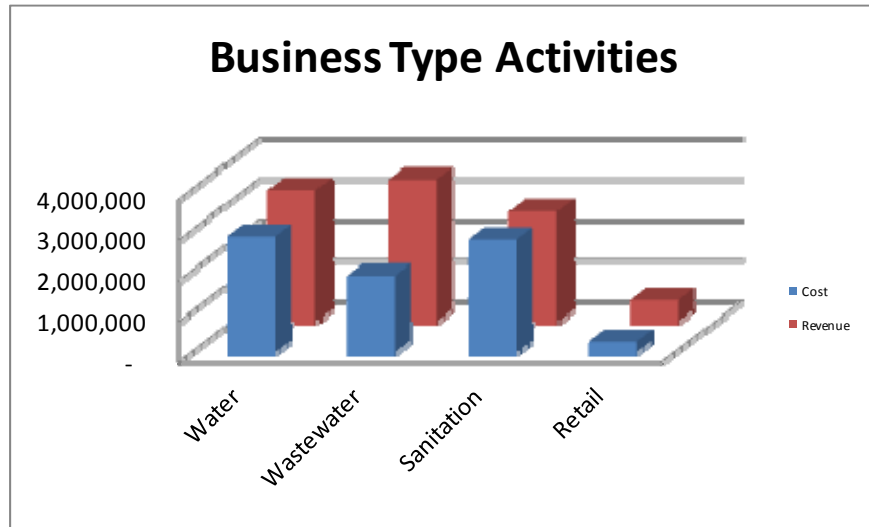
	CITY OF PALESTINE'S CHANGES IN NET POSITION					
	Governmental Activities		Business -type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 851,817	\$ 1,115,919	\$ 10,002,581	\$ 9,612,464	\$ 10,854,398	\$ 10,728,383
Operating grants and contributions	719,912	245,836	-	-	719,912	245,836
Capital grants and contributions	137,820	733,953	175,373	1,214,975	313,193	1,948,928
General revenues:						
Property taxes	6,038,462	6,084,060	-	-	6,038,462	6,084,060
Sales taxes	5,333,876	5,399,352	-	-	5,333,876	5,399,352
Franchise taxes	954,779	1,005,088	-	-	954,779	1,005,088
Investment earnings	35,820	33,833	10,252	14,909	46,072	48,742
Loss on sale of assets	(320,551)	-	-	-	(320,551)	-
Other income (loss)	203,100	237,203	-	-	203,100	237,203
Total revenues	<u>13,955,035</u>	<u>14,855,244</u>	<u>10,188,206</u>	<u>10,842,348</u>	<u>24,143,241</u>	<u>25,697,592</u>
Expenses:						
General government	1,563,593	1,914,617	-	-	1,563,593	1,914,617
Public safety	6,841,422	6,768,221	-	-	6,841,422	6,768,221
Community services	3,694,665	3,840,239	-	-	3,694,665	3,840,239
Community development	2,307,956	1,869,932	-	-	2,307,956	1,869,932
Interest on long-term debt	355,022	447,410	-	-	355,022	447,410
Water	-	-	3,627,542	3,609,771	3,627,542	3,609,771
Wastewater	-	-	2,781,477	2,932,205	2,781,477	2,932,205
Sanitation	-	-	2,800,106	2,525,215	2,800,106	2,525,215
Retail	-	-	372,873	372,031	372,873	372,031
Total expenses	<u>14,762,658</u>	<u>14,840,419</u>	<u>9,581,998</u>	<u>9,439,222</u>	<u>24,344,656</u>	<u>24,279,641</u>
Increases (decreases) in net assets before transfers	(807,623)	14,825	606,208	1,403,126	(201,415)	1,417,951
Transfers	711,302	859,296	(711,302)	(859,296)	-	-
Change in net position	(96,321)	874,121	(105,094)	543,830	(201,415)	1,417,951
Net Position - beginning	<u>12,946,262</u>	<u>12,072,139</u>	<u>24,512,753</u>	<u>23,968,923</u>	<u>37,459,015</u>	<u>36,041,062</u>
Net Position- ending	<u>\$ 12,849,941</u>	<u>\$ 12,946,260</u>	<u>\$ 24,407,659</u>	<u>\$ 24,512,753</u>	<u>\$ 37,257,600</u>	<u>\$ 37,459,013</u>

**CITY OF PALESTINE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
September 30, 2013

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, 2013**



For the year, revenue from governmental activities totaled \$13,955,035. Property and sales tax revenues are the City's largest revenue sources. Property taxes decreased by 0.75%, while sales taxes decreased by 1.21%. 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 \$954,779 for the year, a decrease of 5.0% from the prior year.

For the year, expenses for governmental activities totaled \$14,762,658. This represents a decrease of \$77,761 over last year. The decrease was budgeted by management and council to improve city finances.

Business-type activities net assets decreased by \$105,094, which is largely attributable to a decline in capital grants and contributions.

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

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

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$4,155,849. Of this, \$500,000 is reported in nonspendable –notes receivables, \$1,271,388 is reported as restricted, \$358,993 is reported as committed and the remaining fund balance of \$2,025,468 is unassigned.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2013**

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 \$913,049.

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 \$66,368 in the general fund. However, the net change in fund balance increased by \$471,710, resulting in a positive variance of \$538,078 from budgeted as amended over actual. General fund revenues were under budget by \$234,660 and general fund expenditures were under budget by \$807,133. Main revenues under budget were fines and forfeitures and sales tax. Main expenditure under budget was public safety.

**CAPITAL ASSETS**

At year-end, the City's governmental activities funds had invested \$19,060,612 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 \$1,772,206.

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	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,777,675	\$ 1,777,675	\$ 1,800,469	\$ 1,800,469	\$ 3,578,144	\$ 3,578,144
Buildings	5,488,026	5,637,206	9,992,965	9,992,965	15,480,991	15,630,171
Improvements	9,508,095	9,497,336	-	-	9,508,095	9,497,336
Machinery and equipment	9,002,274	8,761,319	455,531	339,018	9,457,805	9,100,337
Infrastructure	30,134,299	30,134,299	41,612,676	41,236,536	71,746,975	71,370,835
Construction in progress	-	-	1,126,227	-	1,126,227	-
Less accumulated depreciation	(36,849,757)	(35,266,948)	(25,823,486)	(24,115,178)	(62,673,243)	(59,382,126)
Net Assets - ending	<u>\$ 19,060,612</u>	<u>\$ 20,540,887</u>	<u>\$ 29,164,382</u>	<u>\$ 29,253,810</u>	<u>\$ 48,224,994</u>	<u>\$ 49,794,697</u>

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

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2013**

**LONG-TERM DEBT**

At the end of the current year, the City had total certificates of obligation of \$12,772,000 and \$8,816,495 in revenue bonds outstanding. The City redeemed \$985,000 of certificates of obligation and \$2,602,135 of revenue bonds during the year. The City also entered into a capital lease of \$188,952.

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	
	2013	2012	2013	2012	2013	2012
Capital leases	\$ 689,159	\$ 772,863	\$ -	\$ -	\$ 689,159	\$ 772,863
Revenue bonds	-	-	8,816,495	9,978,630	8,816,495	9,978,630
Certificates of obligation	8,702,000	9,152,000	4,070,000	2,005,000	12,772,000	11,157,000
<b>Total</b>	<b>\$ 9,391,159</b>	<b>\$ 9,924,863</b>	<b>\$ 12,886,495</b>	<b>\$ 11,983,630</b>	<b>\$ 22,277,654</b>	<b>\$ 21,908,493</b>

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

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

The national unemployment rate stands at 6.1% and the State of Texas rate is 5.2%. The Anderson County unemployment rate has historically run slightly higher than the state average and is 5.3% which is a 2.1% decrease from September of 2013. 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, however, 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 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. Main Street also markets downtown as a tourist destination.

**CITY OF PALESTINE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
**September 30, 2013**

The City of Palestine and Anderson County have approved a tax abatement agreement with Sanderson Farms, Inc. Sanderson Farms is expected to bring 1,000 jobs to the area. Operations are expected to begin early 2016. 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. Future job growth over the next ten years is predicted to be 35.3% although sales tax collections for the 2014 fiscal year have declined approximately 1% from fiscal year 2013. The City will continue to aggressively pursue ways to expand the community resources and create greater economic opportunities for its citizens.

**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](mailto:esaegert@palestine-tx.org).



***BASIC FINANCIAL STATEMENT***

# CITY OF PALESTINE, TEXAS

## STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 1,790,405	\$ 2,244,632	\$ 4,035,037	\$ 1,295,059
Receivable (net of allowance of doubtful accounts)	1,616,534	987,480	2,604,014	168,432
Inventories	93,689	-	93,689	-
Internal Balances	595,810	(595,810)	-	-
Total Current Assets	<u>4,096,438</u>	<u>2,636,302</u>	<u>6,732,740</u>	<u>1,463,491</u>
Noncurrent Assets				
Restricted Assets				
Cash and cash equivalents	755,428	5,890,691	6,646,119	-
Receivable (net of allowance of doubtful accounts)	82,785	-	82,785	-
Notes receivable	11,797	-	11,797	-
Notes receivable	500,000	-	500,000	9,264
Capital Assets :				
Nondepreciable	1,777,675	2,926,695	4,704,370	948,602
Depreciable, net	17,282,937	26,237,687	43,520,624	2,998,251
Total Noncurrent Assets	<u>20,410,622</u>	<u>35,055,073</u>	<u>55,465,695</u>	<u>3,956,117</u>
Total Assets	<u>\$ 24,507,060</u>	<u>\$ 37,691,375</u>	<u>\$ 62,198,435</u>	<u>\$ 5,419,608</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 680,891	\$ 339,145	\$ 1,020,036	\$ 7,286
Accrued interest payable	40,935	69,796	110,731	13,681
Water meter deposits - Refundable	-	314,696	314,696	-
Non-current Liabilities:				
Due within a year	1,538,154	1,502,266	3,040,420	340,000
Due in more than a year	9,397,139	11,057,813	20,454,952	3,328,149
Total Liabilities	<u>11,657,119</u>	<u>13,283,716</u>	<u>24,940,835</u>	<u>3,689,116</u>
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	9,669,453	20,924,948	30,594,401	278,704
Restricted For:				
Debt Service	217,389	1,412,470	1,629,859	-
Capital Projects	290,132	-	290,132	-
Public Safety	136,800	-	136,800	-
Economic Development	591,476	-	591,476	-
Other purposes	35,591	-	35,591	-
Unrestricted	1,909,100	2,070,241	3,979,341	1,451,788
Total Net Position	<u>\$ 12,849,941</u>	<u>\$ 24,407,659</u>	<u>\$ 37,257,600</u>	<u>\$ 1,730,492</u>

See the accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,563,593	\$ -	\$ -	\$ -
Public Safety	6,841,422	495,676	66,272	-
Community Services	3,694,665	273,574	653,640	137,820
Community Development	2,307,956	82,567	-	-
Interest expense on long term debt	355,022	-	-	-
Total Governmental Activities	<u>14,762,658</u>	<u>851,817</u>	<u>719,912</u>	<u>137,820</u>
Business-type Activities				
Water fund	3,627,542	3,244,367	-	175,373
Wastewater fund	2,781,477	3,500,402	-	-
Sanitation	2,800,106	2,721,246	-	-
Retail	372,873	536,566	-	-
Total Business-type Activities	<u>9,581,998</u>	<u>10,002,581</u>	<u>-</u>	<u>175,373</u>
Total Primary Government	<u>\$ 24,344,656</u>	<u>\$ 10,854,398</u>	<u>\$ 719,912</u>	<u>\$ 313,193</u>
Component Unit				
PEDC	<u>\$ 1,254,687</u>	<u>167,000</u>	<u>-</u>	<u>-</u>

General Revenues:  
Property Taxes  
Franchise Taxes  
Sales and Use Taxes  
Investment Earnings  
Gain (loss) on sale of assets  
Other income  
Transfers  
Total General Revenues and Transfers

Change in Net Position  
Net Position, beginning  
Net Position, ending

See the accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Primary Government		Component Unit
	Business- type Activities	Total	PEDC
\$ (1,563,593)	\$ -	\$ (1,563,593)	\$ -
(6,279,474)	-	(6,279,474)	-
(2,629,631)	-	(2,629,631)	-
(2,225,389)	-	(2,225,389)	-
(355,022)	-	(355,022)	-
<u>(13,053,109)</u>	<u>-</u>	<u>(13,053,109)</u>	<u>-</u>
-	(207,802)	(207,802)	-
-	718,925	718,925	-
-	(78,860)	(78,860)	-
<u>-</u>	<u>163,693</u>	<u>163,693</u>	<u>-</u>
<u>-</u>	<u>595,956</u>	<u>595,956</u>	<u>-</u>
<u>(13,053,109)</u>	<u>595,956</u>	<u>(12,457,153)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,087,687)</u>
6,038,462	-	6,038,462	-
954,779	-	954,779	-
5,333,876	-	5,333,876	980,848
35,820	10,252	46,072	1,719
(320,551)	-	(320,551)	169,340
203,100	-	203,100	8,006
711,302	(711,302)	-	-
<u>12,956,788</u>	<u>(701,050)</u>	<u>12,255,738</u>	<u>1,159,913</u>
(96,321)	(105,094)	(201,415)	72,226
12,946,262	24,512,753	37,459,015	1,658,266
<u>\$ 12,849,941</u>	<u>\$ 24,407,659</u>	<u>\$ 37,257,600</u>	<u>\$ 1,730,492</u>

# CITY OF PALESTINE, TEXAS

## BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 487,081	\$ 309,397	\$ 796,478
Restricted Cash and cash equivalents	-	755,428	755,428
Receivables, net	1,559,866	56,668	1,616,534
Restricted Receivables	-	82,785	82,785
Due from other funds	960,113	943,041	1,903,154
Notes Receivable	500,000	-	500,000
Restricted Notes Receivable	-	11,797	11,797
Total Assets	<u>\$ 3,507,060</u>	<u>\$ 2,159,116</u>	<u>\$ 5,666,176</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accrued Liabilities	\$ 341,654	\$ 36,705	\$ 378,359
Deferred Revenue Taxes	331,392	47,596	378,988
Due to other funds	-	752,980	752,980
Total Liabilities	<u>673,046</u>	<u>837,281</u>	<u>1,510,327</u>
 <b>Fund balances:</b>			
<b>Nonspendable:</b>			
Notes receivables	500,000	-	500,000
<b>Restricted for:</b>			
Economic development	-	591,476	591,476
Debt service	-	217,389	217,389
Capital projects	-	290,132	290,132
Public safety	-	136,800	136,800
Other purposes	-	35,591	35,591
<b>Committed for:</b>			
Community forest	-	56,495	56,495
Airport	-	118,484	118,484
Cemetery	-	184,014	184,014
<b>Unassigned</b>	2,334,014	(308,546)	2,025,468
Total Fund balances	<u>2,834,014</u>	<u>1,321,835</u>	<u>4,155,849</u>
Total Liabilities and Fund Balances	<u>\$ 3,507,060</u>	<u>\$ 2,159,116</u>	<u>\$ 5,666,176</u>

The accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2013**

Total fund balances - governmental funds balance sheet	\$ 4,155,849
<p>Amounts reported for governmental activities in the statement of net position (SNA) are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.</p>	
Capital assets, non-depreciable	1,777,675
Capital assets, depreciable	15,818,997
<p>Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds</p>	
	378,988
<p>Internal service funds are used by management to charge the cost of certain capital assets to individual funds.</p>	
<p>The assets and liabilities of the internal service funds are included in governmental activities in the SNA.</p>	
	980,006
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>	
Accrued interest payable	(40,935)
Noncurrent liabilities due in one year	(1,331,803)
Noncurrent liabilities due in more than one year	(8,888,836)
	\$ 12,849,941
Net position of governmental activities - statement of net assets	\$ 12,849,941

The accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Revenue:</b>			
Taxes	\$ 11,150,879	\$ 1,275,077	\$ 12,425,956
Licenses, permits and fees	82,567	-	82,567
Intergovernmental	368,922	350,989	719,911
Charges for services	51,651	221,923	273,574
Fines and Forfeitures	503,480	14,053	517,533
Investment	33,788	2,032	35,820
Other revenues	191,533	165,107	356,640
Total revenues	<u>12,382,820</u>	<u>2,029,181</u>	<u>14,412,001</u>
<b>Expenditures:</b>			
General government	1,684,658	-	1,684,658
Public Safety	6,559,733	10,404	6,570,137
Community Services	3,227,674	392,919	3,620,593
Community Development	1,054,042	428,225	1,482,267
<b>Debt service:</b>			
Principal	-	450,000	450,000
Interest and fiscal charges	-	393,640	393,640
Total expenditures	<u>12,526,107</u>	<u>1,675,188</u>	<u>14,201,295</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(143,287)</u>	<u>353,993</u>	<u>210,706</u>
<b>Other financing sources (uses):</b>			
Transfers in	766,538	146,511	913,049
Transfers out	(151,541)	(55,206)	(206,747)
Total other financing sources (uses)	<u>614,997</u>	<u>91,305</u>	<u>706,302</u>
Net change in fund balances	471,710	445,298	917,008
Fund balances, October 1	<u>2,362,304</u>	<u>876,537</u>	<u>3,238,841</u>
Fund balances, September 30	<u>\$ 2,834,014</u>	<u>\$ 1,321,835</u>	<u>\$ 4,155,849</u>

The accompanying Notes to Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Net change in fund balances - total governmental funds	\$	917,008
<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		660,244
Depreciation		(1,772,206)
<p>Net effect of various transactions involving capital assets ( i.e., sales, trade-ins and donations) is to decrease net position.</p>		
		(336,271)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds</p>		
		(74,735)
<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		450,000
Interest expense		10,893
<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>		
		50,420
<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>(1,674)</u>
Change in net position of governmental activities - statement of net position	\$	<u><u>(96,321)</u></u>

The accompanying Notes to Financial Statements.



# CITY OF PALESTINE, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds				Total
	Water	Wastewater	Sanitation	Retail	
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 275,299	\$ 1,607,036	\$ -	\$ 362,297	\$ 2,244,632
Receivable (net)	334,791	359,439	293,250	-	987,480
Inventory	-	-	-	-	-
Due from other funds	1,140,690	817,639	-	-	1,958,329
<b>Total Current Assets</b>	<u>1,750,780</u>	<u>2,784,114</u>	<u>293,250</u>	<u>362,297</u>	<u>5,190,441</u>
<b>Noncurrent Assets:</b>					
Cash and cash equivalents (restricted)	2,446,207	3,219,219	-	225,265	5,890,691
<b>Capital Assets</b>					
Nondepreciable	10,178	1,162,890	20,281	1,733,346	2,926,695
Depreciable, net	12,962,241	11,664,386	-	1,611,060	26,237,687
<b>Total Capital Assets</b>	<u>12,972,419</u>	<u>12,827,276</u>	<u>20,281</u>	<u>3,344,406</u>	<u>29,164,382</u>
<b>(Net of Accumulated Depreciation)</b>	<u>15,418,626</u>	<u>16,046,495</u>	<u>20,281</u>	<u>3,569,671</u>	<u>35,055,073</u>
<b>Total Noncurrent Assets</b>	<u>15,418,626</u>	<u>16,046,495</u>	<u>20,281</u>	<u>3,569,671</u>	<u>35,055,073</u>
<b>Total assets</b>	<u>\$ 17,169,406</u>	<u>\$ 18,830,609</u>	<u>\$ 313,531</u>	<u>\$ 3,931,968</u>	<u>\$ 40,245,514</u>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	\$ 146,465	\$ 108,616	\$ 69,215	\$ 14,849	\$ 339,145
Due to other funds	583,095	852,054	1,064,652	54,338	2,554,139
Accrued interest payable	1,065	66,338	-	2,393	69,796
Water meter deposits - refundable (restricted)	314,696	-	-	-	314,696
Long-term debt - due within one year	203,262	1,211,183	2,405	85,416	1,502,266
<b>Total current liabilities</b>	<u>1,248,583</u>	<u>2,238,191</u>	<u>1,136,272</u>	<u>156,996</u>	<u>4,780,042</u>
<b>Noncurrent liabilities</b>					
Long-term debt - due in more than one year	383,798	10,065,382	3,738	604,895	11,057,813
<b>Total noncurrent liabilities</b>	<u>383,798</u>	<u>10,065,382</u>	<u>3,738</u>	<u>604,895</u>	<u>11,057,813</u>
<b>Total Liabilities</b>	<u>1,632,381</u>	<u>12,303,573</u>	<u>1,140,010</u>	<u>761,891</u>	<u>15,837,855</u>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	13,939,716	4,077,715	20,281	2,887,236	20,924,948
Restricted for Debt Service	704,058	708,412	-	-	1,412,470
Unrestricted	893,251	1,740,909	(846,760)	282,841	2,070,241
<b>Total net position</b>	<u>\$ 15,537,025</u>	<u>\$ 6,527,036</u>	<u>\$ (826,479)</u>	<u>\$ 3,170,077</u>	<u>\$ 24,407,659</u>

The accompanying Notes to Financial Statements.

Governmental  
Activities  
Internal Service  
Funds

---

\$ 993,927

-

93,689

179,286

---

1,266,902

-

-

1,463,940

---

1,463,940

---

1,463,940

---

\$ 2,730,842

\$ 302,532

733,650

-

-

206,351

---

1,242,533

---

508,303

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508,303

---

1,750,836

774,779

-

205,227

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\$ 980,006

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
<b>OPERATING REVENUES:</b>					
Charges For Services	\$ 3,198,438	\$ 3,486,452	\$ 2,721,246	\$ 536,566	\$ 9,942,702
Other revenues	45,929	13,950	-	-	59,879
<b>Total Operating Revenues</b>	<u>3,244,367</u>	<u>3,500,402</u>	<u>2,721,246</u>	<u>536,566</u>	<u>10,002,581</u>
<b>OPERATING EXPENSES:</b>					
Cost of sales and services	1,787,251	1,164,539	2,706,520	157,865	5,816,175
Personnel	1,048,265	540,430	93,586	72,419	1,754,700
Depreciation	754,594	876,105	-	92,533	1,723,232
<b>Total Operating Expenses</b>	<u>3,590,110</u>	<u>2,581,074</u>	<u>2,800,106</u>	<u>322,817</u>	<u>9,294,107</u>
<b>Operating Income (Loss)</b>	<u>(345,743)</u>	<u>919,328</u>	<u>(78,860)</u>	<u>213,749</u>	<u>708,474</u>
<b>NON-OPERATING REVENUES</b>					
<b>(EXPENSES):</b>					
Investment revenue	1,919	7,641	16	676	10,252
Interest expense	(37,432)	(200,403)	-	(50,056)	(287,891)
<b>Total Non-operating Revenues</b>	<u>1,919</u>	<u>7,641</u>	<u>16</u>	<u>676</u>	<u>10,252</u>
<b>(Expenses)</b>	<u>(35,513)</u>	<u>(192,762)</u>	<u>16</u>	<u>(49,380)</u>	<u>(277,639)</u>
<b>Income (Loss) before</b>					
<b>Contributions and Transfers</b>	<u>(381,256)</u>	<u>726,566</u>	<u>(78,844)</u>	<u>164,369</u>	<u>430,835</u>
Transfer in	611,392	-	-	87,493	698,885
Transfers (out)	(250,300)	(816,004)	(305,537)	(38,346)	(1,410,187)
Capital Contribution	175,373	-	-	-	175,373
<b>Change in net position</b>	<u>155,209</u>	<u>(89,438)</u>	<u>(384,381)</u>	<u>213,516</u>	<u>(105,094)</u>
Net position, October 1	15,381,816	6,616,474	(442,098)	2,956,561	24,512,753
<b>Net position, September 30</b>	<u>\$ 15,537,025</u>	<u>\$ 6,527,036</u>	<u>\$ (826,479)</u>	<u>\$ 3,170,077</u>	<u>\$ 24,407,659</u>

See the accompanying Notes to the Financial Statements.

Governmental  
Activities  
Internal Service  
Funds

\$ 3,319,265  
-  
3,319,265

3,001,452  
-  
297,908  
3,299,360

19,905

1,144  
(27,723)  
(26,579)

(6,674)

5,000  
-  
-  
(1,674)

981,680  
\$ 980,006

# CITY OF PALESTINE, TEXAS

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 1 of 2)**  
**For the Year Ended September 30, 2013**

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 3,216,133	\$ 3,473,606	\$ 2,764,788	\$ 536,566	\$ 9,991,093
Payments to suppliers	(2,051,438)	(1,097,321)	(2,765,927)	(148,212)	(6,062,898)
Payments to employees	(1,056,431)	(507,738)	(87,443)	(66,771)	(1,718,383)
Internal Activity - payments from other funds		852,669	394,103	-	1,246,772
Internal Activity - payments to other funds	(746,016)	-	-	-	(746,016)
<b>Net Cash Provided by Operating Activities</b>	<b>(637,752)</b>	<b>2,721,216</b>	<b>305,521</b>	<b>321,583</b>	<b>2,710,568</b>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfer from other funds	611,392	-	-	87,493	698,885
Transfer to other funds	(250,300)	(816,004)	(305,537)	(38,346)	(1,410,187)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>361,092</b>	<b>(816,004)</b>	<b>(305,537)</b>	<b>49,147</b>	<b>(711,302)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition and construction of capital assets	(346,357)	(1,228,319)	-	(59,128)	(1,633,804)
Capital contribution	175,373	-	-	-	175,373
Principal paid on capital debt	(950,018)	(2,109,982)	-	(77,135)	(3,137,135)
Interest paid on capital debt	(18,660)	(260,875)	-	(43,155)	(322,690)
Proceeds from capital debt	720,000	3,320,000	-	-	4,040,000
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(419,662)</b>	<b>(279,176)</b>	<b>-</b>	<b>(179,418)</b>	<b>(878,256)</b>
<b>Cash Flows from Investing Activities</b>					
Interest received	1,919	7,641	16	676	10,252
<b>Net Cash Provided by Investing Activities</b>	<b>1,919</b>	<b>7,641</b>	<b>16</b>	<b>676</b>	<b>10,252</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(694,403)</b>	<b>1,633,677</b>	<b>-</b>	<b>191,988</b>	<b>1,131,262</b>
Beginning cash and cash equivalents	3,415,909	3,192,578	-	395,574	7,004,061
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 2,721,506</b>	<b>\$ 4,826,255</b>	<b>\$ -</b>	<b>\$ 587,562</b>	<b>\$ 8,135,323</b>
<b>Ending Cash and Cash Equivalents</b>					
Unrestricted cash and cash equivalents	275,299	1,607,036	-	362,297	2,244,632
Restricted cash and cash equivalents	2,446,207	3,219,219	-	225,265	5,890,691
	<b>\$ 2,721,506</b>	<b>\$ 4,826,255</b>	<b>\$ -</b>	<b>\$ 587,562</b>	<b>\$ 8,135,323</b>

See the accompanying Notes to the Financial Statements.

Governmental  
Activities  
Internal Service  
Funds

\$ 3,319,265  
(2,976,770)  
-  
510,832  
(314,403)  
538,924

5,000  
-  
5,000

(199,269)  
-  
(272,656)  
(9,010)  
-  
(480,935)

1,144  
1,144

64,133  
929,794  
\$ 993,927

993,927  
-  
\$ 993,927

# CITY OF PALESTINE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2013

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
<b>Operating income (loss)</b>	\$ (345,743)	\$ 919,328	\$ (78,860)	\$ 213,749	\$ 708,474
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>					
Depreciation	754,594	876,105	-	92,533	1,723,232
Changes in Operating Assets and Liabilities:					
(Increase) Decrease in Current Assets:					
Accounts receivable	(28,234)	(12,846)	43,542	-	2,462
Inventory	-	-	-	-	-
Due from other funds	(438,316)	61,939	-	13,094	(363,283)
Increase (Decrease) in Current Liabilities:					
Due to other funds	(307,700)	790,730	394,103	(13,095)	864,038
Accounts payable and accrued liabilities	(272,353)	85,960	(53,264)	15,302	(224,355)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ (637,752)</b>	<b>\$ 2,721,216</b>	<b>\$ 305,521</b>	<b>\$ 321,583</b>	<b>\$ 2,710,568</b>
 <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>					
Borrowing under capital lease					
Total noncash investing, capital and financing activities:	\$ -	\$ -	\$ -	\$ -	\$ -

See the Accompanying Notes to Financial Statements.

Governmental  
Activities  
Internal Service  
Funds

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\$ 19,905

297,908

-

13,829

-

196,429

10,853

---

\$ 538,924

---

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\$ 188,952



# CITY OF PALESTINE, TEXAS

## NOTES TO FINANCIAL STATEMENTS

September 30, 2013

### 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, 2013**

**B. Financial Statement Presentation**

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

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

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

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

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

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

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, 2013

**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, 2013

**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 Position and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net position. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

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

The City utilizes the modified accrual basis of accounting in the governmental fund and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

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, 2013**

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

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

The Statements of Net Position, Statements of Activities, and Financial Statements of Proprietary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

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

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 Position or Fund Equity**

**1. Deposits and Investments**

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

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

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

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

**2. Receivables and Payables**

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**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 asset's life are not capitalized.

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

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**5. Compensated Employee Absences**

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

**6. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of bonds payable 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, 2013**

**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, 2013**

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONTINUED**

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

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

<u>Fund</u>	<u>Deficit</u>
Generator grant	\$ 6,994
2006 Series Imp.	\$ 47,558
Capital Projects	\$ 253,620
Home Grant	\$ 461
Sanitation	\$ 826,479
Health Insurance	\$ 643,188
Central Warehouse	\$ 72,974

**B. Expenditures Over Appropriations**

The city general fund expenditures were under budget by \$807,133, 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>
Airport	41,173	41,109	(64)
Community Forest	26,350	-	(26,350)
Capital Improvement Projects	124,382	94,000	(30,382)

**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>	<u>Credit Risk</u>
TexPool	\$1,385,168	.15	AAAm
TexStar	\$6,458,505	.14	AAAm

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

*Credit risk.* As of September 30, 2013, 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, 2013

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

**A. Deposits and Investments, continued**

*Interest rate risk*, The City has no long-term investments and has only invested in TexPool and TexStar. The strategy protects City's investments from market valuation and from unanticipated rate movements.

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

More specifically, the U.S. agencies held by the City as of September 30, 2013, consist of bonds issued by the Federal National Mortgage Association. These investments were rated not less than AAA by Moody's and Standard & Poor's. In addition to limiting the City's investments to those specifically authorized by policy, the City also protects against credit risk by diversifying their portfolio. The maximum allowable portion of the City's portfolio invested in state and local government securities is 50 percent of the total portfolio, with exposure to any one issuer of less than ten percent of the total portfolio at the time of purchase.

**TexPool**

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

**TexSTAR**

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

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

**B. Note Receivables**

The City loaned \$500,000 to the Texas State Railroad Authority in December 2007. The promissory note matures on December 1, 2016. The Authority is to pay the City interest only for the first six years of the loan. The payments will be \$2,500 beginning on March 1, June 1, September 1, December 1, for 2013. The interest rate is 2%. The Authority will pay interest and principal over a four-year period concluding on December 1, 2017.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

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

**B. Note Receivables, continued**

The City, through its revolving loan fund, loaned a local company funds for certain approved business needs. The balance outstanding on note at September 30, 2013, totaled \$27,227. Interest rate on note is fixed at 2.25%. Principle and interest payments of \$656.04 are due monthly. Note is collateralized by personal property and real estate. Note matures on February 1, 2015.

**C. Receivables**

The following comprise receivable balances at year-end:

	General	Nonmajor Governmental	Water	Wastewater	Sanitation
Receivables					
Ad valorem taxes	\$ 529,533	\$ 76,535	\$ -	\$ -	\$ -
Other Taxes	1,117,754	30,081	-	-	-
Other	5,877	56,668	2,850	-	-
Accounts	<u>104,094</u>	<u>2,740</u>	<u>431,255</u>	<u>416,648</u>	<u>392,513</u>
Gross receivables	1,757,258	166,024	434,105	416,648	392,513
Less: allowance for uncollectible	<u>197,392</u>	<u>26,571</u>	<u>99,314</u>	<u>57,209</u>	<u>99,263</u>
Net total receivables	<u>\$ 1,559,866</u>	<u>\$ 139,453</u>	<u>\$ 334,791</u>	<u>\$ 359,439</u>	<u>\$ 293,250</u>

**D. Operating Leases**

Operating Leases -Lessee

The City has entered into thirteen operating leases for various equipment. These leases are considered to be operating for accounting purposes. Lease expenditures for the year totaled \$59,363. Monthly rental amounts range from \$66 to \$539. The term of leases range from 48 months to 60 months.

Operating Leases –Lessor

The City has leasing arrangements with nine tenants in the City owned mall. The term of lease arrangements range from 12 months to 120 months. Monthly rental amounts range from \$575to \$18,750.

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

Year	Amount
2014	\$ 625,426
2015	553,564
2016	443,392
2017	356,960
2018	<u>331,960</u>
Total	<u>\$ 2,311,302</u>

Cost of mall, excluding city library in mall, \$3,672,500. Total amount of accumulated depreciation on mall at year-end was \$328,093.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

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

**E. Capital Assets**

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

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Government activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,777,675	\$ -	\$ -	\$ 1,777,675
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>1,777,675</u>	<u>-</u>	<u>-</u>	<u>1,777,675</u>
Capital assets, being depreciated:				
Buildings	5,637,206	-	(149,180)	5,488,026
Improvements	9,497,336	257,850	(247,091)	9,508,095
Machinery and equipment	8,761,319	370,352	(129,397)	9,002,274
Infrastructure	30,134,299	-	-	30,134,299
Total capital assets being depreciated	<u>54,030,160</u>	<u>628,202</u>	<u>(525,668)</u>	<u>54,132,694</u>
Less accumulated depreciation:				
Buildings	(4,025,633)	(74,238)	30,168	(4,069,703)
Improvements	(6,552,487)	-	30,859	(6,521,628)
Machinery and equipment	(6,141,722)	(546,522)	128,370	(6,559,874)
Infrastructure	(18,547,106)	(1,151,446)	-	(19,698,552)
Total accumulated depreciation	<u>(35,266,948)</u>	<u>(1,772,206)</u>	<u>189,397</u>	<u>(36,849,757)</u>
Total capital assets being depreciated, net	<u>18,763,212</u>	<u>(1,144,004)</u>	<u>(336,271)</u>	<u>17,282,937</u>
Governmental activities capital assets, net	<u>\$ 20,540,887</u>	<u>\$ (1,144,004)</u>	<u>\$ (336,271)</u>	<u>\$ 19,060,612</u>
Governmental activities capital assets, net				\$ 19,060,612
Less associated debt				<u>(9,391,159)</u>
<b>Invested in Capital Assets, Net of Related debt</b>				<u>\$ 9,669,453</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 40,966
Public Safety	251,023
Community Development	1,123,596
Community Service	356,621
Total depreciation expenses - governmental activities	<u>\$ 1,772,206</u>

The PEDC reported land of \$948,602 and depreciable capital assets net of accumulated depreciation of \$2,998,251 at year-end.

**CITY OF PALESTINE, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2013

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

**E. Capital Assets, continued**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,800,469	\$ -	\$ -	\$ 1,800,469
Construction in progress	-	1,391,813	(265,586)	1,126,227
Total capital assets not being depreciated	1,800,469	1,391,813	(265,586)	2,926,696
Capital assets, being depreciated:				
Buildings	9,992,965	-	-	9,992,965
Machinery and equipment	339,018	131,437	(14,924)	455,531
Infrastructure	41,236,536	376,141	-	41,612,677
Total capital assets being depreciated	51,568,519	507,578	(14,924)	52,061,173
Less accumulated depreciation:				
Buildings	(6,493,316)	(241,860)	-	(6,735,176)
Machinery and equipment	(169,362)	(18,667)	14,924	(173,105)
Infrastructure	(17,452,500)	(1,462,705)	-	(18,915,205)
Total accumulated depreciation	(24,115,178)	(1,723,232)	14,924	(25,823,486)
Total capital assets being depreciated, net	27,453,341	(1,215,654)	-	26,237,687
Business-type activities capital assets, net	\$ 29,253,810	\$ 176,159	\$ (265,586)	\$ 29,164,383
				Business-type activities, capital assets, net
				Less associated debt
				Unspent proceeds of capital related debt
				Deferred charges
				<b>Invested in Capital Assets, Net of</b>
				<b>Related debt</b>
				\$ 20,924,948
Business-type activities:				
Water and wastewater				\$ 1,630,699
Retail				92,533
Total depreciation expenses - business-type activities				\$ 1,723,232

Business type activities interest expense capitalized during construction for the year is \$108,592 net of related interest income of \$1,336.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

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

**F. Long-Term Debt**

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Government activities:</b>					
Certificates of obligation	\$ 9,152,000	\$ -	\$ 450,000	\$ 8,702,000 *	\$ 460,000
Capital leases	772,863	188,952	272,656	689,159 *	196,154
Compensated absences	1,300,981	749,219	881,757	1,168,443	882,000
Net OPEB obligation	314,039	100,801	39,149	375,691	-
<b>Governmental activities</b>					
Long - term liabilities	<u>\$ 11,539,883</u>	<u>\$ 1,038,972</u>	<u>\$ 1,643,562</u>	<u>\$ 10,935,293</u>	<u>\$ 1,538,154</u>
Long-term debt due in more than a year				<u>\$ 9,397,139</u>	
* Debt associated with capital assets				<u>\$ 9,391,159</u>	
<b>Business type activities</b>					
Revenue Bonds	\$ 9,978,630	\$ 1,440,000	\$ 2,602,135	\$ 8,816,495 *	\$ 817,266
Certificate of obligation	2,005,000	2,600,000	535,000	4,070,000 *	615,000
Bond(premium)/discount	(486,350)	(105,621)	(90,423)	(501,548) *	-
Compensated absences	149,301	157,588	131,757	175,132	132,000
<b>Business-type activities</b>					
Long - term liabilities	<u>\$ 11,646,581</u>	<u>\$ 4,091,967</u>	<u>\$ 3,178,469</u>	<u>\$ 12,560,079</u>	<u>\$ 1,564,266</u>
Long-term debt due in more than a year				<u>\$ 10,995,813</u>	
* Debt associated with capital assets				<u>\$ 12,384,947</u>	
<b>PEDC</b>					
Notes	\$ 3,932,264	\$ 4,055,000	\$ 4,227,264	\$ 3,760,000	\$ 340,000
Bond(premium)/discount	(15,442)	(84,466)	(8,057)	(91,851)	-
	<u>\$ 3,916,822</u>	<u>\$ 3,970,534</u>	<u>\$ 4,219,207</u>	<u>\$ 3,668,149</u>	<u>\$ 340,000</u>
Long-term debt due in more than a year				<u>\$ 3,328,149</u>	

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

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

**F. Long – Term Debt, continued**

Federal Arbitrage

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

The PEDC notes payable have outstanding balances of \$1,055,000 and \$2,705,000 and interest rates of 1.70% and 3.35%, respectively.

Long-term debt was comprised of following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>Governmental Activities</b>		
<b>Certificate of obligation</b>		
Series 2006	4.100%	\$ 690,000
Series 2008	3.874%	1,660,000
Series 2010A Taxable	6.75%	1,875,000
Series 2010 B	4.125%	3,575,000
Series 2010 A Non taxable	5.25%	902,000
<b>Total Governmental Activities Long-term Debt</b>		<b>\$ 8,702,000</b>
<b>Business-Type Activities</b>		
Water and sewer, series 2003	.035-3.10%	2,510,000
Water and sewer, series 2006	2.20-4.20%	585,000
Water and sewer, series 2007	2.40-4.60%	3,450,000
Water and sewer, series 2009	.015-4.125%	500,000
Lease Revenue - Taxable	6.50%	701,495
Certificate of obligation 2011 refunding	2%	1,470,000
General Obligation 2012 refunding	1.58%	1,070,000
Certificate of obligation 2013 refunding	2.15%	2,600,000
<b>Total Business-Type Activities Long-term Debt</b>		<b>\$ 12,886,495</b>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

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

**F. Long – Term Debt, continued**

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

Year Ending September 30,	Governmental Activities		Business-type Activities			
	Certificates of Obligation		Revenue Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 460,000	\$ 367,609	\$ 817,266	\$ 247,842	\$ 615,000	\$ 84,720
2015	475,000	350,441	842,777	228,022	660,000	71,670
2016	610,000	329,055	678,629	207,041	200,000	64,086
2017	293,000	308,203	694,945	187,040	210,000	57,149
2018	405,000	318,858	716,620	166,040	225,000	49,691
2019-2023	2,306,000	1,290,985	3,626,258	483,571	940,000	159,709
2024-2028	2,916,000	706,313	1,400,000	109,598	1,220,000	62,814
2029-2030	1,237,000	85,845	40,000	1,700	-	-
	<u>\$ 8,702,000</u>	<u>\$ 3,757,309</u>	<u>\$ 8,816,495</u>	<u>\$ 1,630,854</u>	<u>\$ 4,070,000</u>	<u>\$ 549,839</u>

Year Ending September 30,	PEDC	
	Notes	
	Principal	Interest
2014	\$ 340,000	\$ 108,553
2015	345,000	103,553
2016	355,000	93,553
2017	360,000	88,553
2018	375,000	73,553
2019-2023	1,355,000	613,186
2024-2028	630,000	150,670
	<u>\$ 3,760,000</u>	<u>\$ 1,231,621</u>

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Capital Leases		Capital Leases	
	Principal	Interest	Principal	Interest
2014	\$ 196,154	\$ 24,115	\$ -	\$ -
2015	203,457	17,264	-	-
2016	122,381	10,174	-	-
2017	126,631	5,886	-	-
2018	40,536	1,412	-	-
	<u>\$ 689,159</u>	<u>\$ 58,851</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 \$772,865 less accumulated depreciation of \$83,609, net \$689,256.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

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

**G. Interfund Transactions**

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

	Payable						
	Total	Nonmajor Governmental	Internal Service	Water	Wastewater	Sanitation	Retail
Receivable							
General	\$ 960,113	\$ 330,720	\$ 589,393	\$ 40,000	\$ -	\$ -	\$ -
Nonmajor governmental	943,041	-	115,658	-	773,045	-	54,338
Internal Service	179,286	179,286	-	-	-	-	-
Water	1,140,690	-	-	-	79,009	1,061,681	-
Wastewater	817,639	242,974	28,599	543,095	-	2,971	-
Total	<u>\$ 4,040,769</u>	<u>\$ 752,980</u>	<u>\$ 733,650</u>	<u>\$ 583,095</u>	<u>\$ 852,054</u>	<u>\$ 1,064,652</u>	<u>\$ 54,338</u>

	Transfers in					
	Total	General	Nonmajor Governmental	Water	Retail	Internal Service
Transfer out						
General	\$ 151,541	\$ -	\$ 54,395	\$ 97,146	\$ -	\$ -
Nonmajor governmental	55,206	55,206	-	-	-	-
Water	250,299	245,299	-	-	-	5,000
Wastewater	816,005	247,150	92,116	389,246	87,493	-
Sanitation	305,537	180,537	-	125,000	-	-
Retail	38,346	38,346	-	-	-	-
Total transfers	<u>\$ 1,616,934</u>	<u>\$ 766,538</u>	<u>\$ 146,511</u>	<u>\$ 611,392</u>	<u>\$ 87,493</u>	<u>\$ 5,000</u>

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

**H. Fund Equity**

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

Library	\$ 17,387
Community beautification	18,204
Total restricted for other purposes	<u>\$ 35,591</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**IV. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which the City participates in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

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

	9/30/2013	9/30/2012
Beginning claims payable	\$ 267,140	\$ 533,959
Claims incurred	1,402,436	815,123
Claims incurred but not reported	249,969	174,329
Claims paid	(1,656,826)	(1,256,271)
Ending claims payable	\$ 262,719	\$ 267,140

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

**B. Contingent Liabilities**

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

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

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

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

**September 30, 2013**

**IV. OTHER INFORMATION, CONTINUED**

**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), 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.

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](http://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:

	2013	2012
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

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, 2013**

**IV. OTHER INFORMATION, CONTINUED**

**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.

The annual pension cost and net pension obligation/(asset) are as follows:

	2013	2012	2011	2010	2009
Annual Req. Contrib.(ARC)	\$ 1,046,394	\$ 1,031,462	\$ 1,113,722	\$ 1,117,323	\$ 968,429
Contributions Made	\$ 1,046,394	\$ 1,031,462	\$ 1,113,722	\$ 1,117,323	\$ 968,429
NPO at End of Period	\$ -	\$ -	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	2013	2012
	12/31/2012	12/31/2011
Actuarial Valuation Date	Projected Unit Credit	Projected Unit Credit
Actuarial Cost Method	Level % of Payroll	Level % of Payroll
Amortization Method		
GASB 25 equivalent single amortization period	25 Years	26 Years
Remaining Amortization Period	30 Years - Closed period	30 Years - Closed period
Asset Valuation Method	10 yr smoothed - market	10 yr smoothed - market
Investment Rate of Return	7.5%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%
	2.10%	2.10%

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**IV. OTHER INFORMATION, CONTINUED**

**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 \$39,149 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.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**IV. OTHER INFORMATION, CONTINUED**

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

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. As of the actuarial valuation date of October 1, 2012, the actuarial value of plan assets is zero dollars, the actuarial accrued liability is \$962,761, the total underfunded actuarial liability is \$962,761, 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 \$101,001. The components of the ARC consist of the employer's normal cost and the amortization of the underfunded actuarial accrued liabilities. The following is a summary of the actuarial assumptions:

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

Three-Year Contribution Information

	2013	2012	2011
Annual Req. Contrib. (ARC)	\$ 101,001	\$ 97,206	\$ 109,927
Adjustment To ARC	(13,545)	(10,663)	(6,829)
Interest on net OPEB obligation	13,347	10,701	6,950
Contributions Made	(39,149)	(34,993)	(21,788)
Beginning OPEB Obligation	314,037	251,786	163,526
Ending OPEB Obligation	<u>\$ 375,691</u>	<u>\$ 314,037</u>	<u>\$ 251,786</u>

**Trend Information**

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
9/30/2011	110,048	21,788	19.80%	251,786
9/30/2012	97,244	34,993	35.98%	314,037
9/30/2013	100,803	39,149	38.84%	375,691

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**IV. OTHER INFORMATION, CONTINUED**

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

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

	2013
Actuarial Valuation Date	10/1/2011
Actuarial Valuation of Assets	\$ -
Actuarial Accrued Liability	\$ 962,761
Percentage Funded	0.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 962,761
Annual Coverage Payroll	\$ 7,667,108
UAAL as Percentage of Covered Payroll	13%

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.

**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, 2013, 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.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2013**

**IV. OTHER INFORMATION, CONTINUED**

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

The City's contribution rate to the TMRS SDBF, for the years-ended September 30, 2013, 2012 and 2011 were \$46,003, \$58,966 and \$62,805, respectively, which equaled the required contribution each year.

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

	2013	2012	2011
Annual Req. Contrib. (ARC)	0.60%	0.60%	0.80%
Actual Contributions Made	0.60%	0.60%	0.80%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

**E. Subsequent Events**

In November 2013, the Council approved a loan from East Texas Council of Governments to pay for construction for Sanderson Farms Project.

In February 2014, the City entered into a capital lease for essential equipment. The amount of acquired equipment cost and related capital lease payable is \$226,575.

In February 2014, the Council approved to upgrade software and computers for \$150,000.



***REQUIRED SUPPLEMENTARY INFORMATION***

# CITY OF PALESTINE, TEXAS

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenue:				
Taxes				
Property Taxes	\$ 5,235,813	\$ 5,235,813	\$ 5,243,742	\$ 7,929
Business Franchise Taxes	970,955	988,794	978,881	(9,913)
City Sales Taxes	5,109,502	5,109,502	4,928,256	(181,246)
Licenses, Permits and Fees	103,287	103,287	82,567	(20,720)
Intergovernmental Revenues	341,388	341,388	368,922	27,534
Charges For Services	35,008	35,008	51,651	16,643
Fines and Forfeitures	695,437	695,437	503,480	(191,957)
Investment	39,486	39,485	33,788	(5,697)
Other revenues	68,766	68,766	191,533	122,767
Total revenues	12,599,642	12,617,480	12,382,820	(234,660)
Expenditures:				
General Government	1,753,918	1,765,305	1,684,658	80,647
Public Safety	7,351,956	7,375,664	6,559,733	815,931
Community Services	3,084,512	3,084,512	3,227,674	(143,162)
Community Development	1,114,874	1,107,759	1,054,042	53,717
Total expenditures	13,305,260	13,333,240	12,526,107	807,133
Excess (deficiency) of revenues over (under) expenditures	(705,618)	(715,760)	(143,287)	572,473
Other financing sources (uses):				
Operating transfers in	766,538	766,538	766,538	-
Operating transfers out	(117,146)	(117,146)	(151,541)	(34,395)
Total other financing sources (uses)	649,392	649,392	614,997	(34,395)
Net change in fund balance	(56,226)	(66,368)	471,710	\$ 538,078
Fund balances, October 1			2,362,304	
Fund balances, September 30			\$ 2,834,014	

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, 2013

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	2013	2012	2011	2010	2009
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Actuarial Value of Assets	\$28,625,511	\$26,964,804	\$26,207,894	\$14,523,310	\$13,418,753
Actuarial Accrued Liability	\$36,991,074	\$36,052,009	\$35,433,051	\$25,546,260	\$24,106,626
Percentage Funded	77.4%	74.8%	74.0%	56.9%	55.7%
Unfunded Actuarial Accrued Liability	\$8,365,563	\$9,087,205	\$9,225,157	\$11,022,950	\$10,687,873
Annual Covered Payroll	\$7,667,108	\$7,370,753	\$7,850,687	\$7,420,601	\$7,116,470
Unfunded Actuarial Accrued Liability (UAAL) % of Covered Payroll	109.1%	123.3%	117.5%	148.5%	150.2%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	1,046,394	1,031,462	1,113,722	1,186,240	968,429
Contributions Made	1,046,394	1,031,462	1,113,722	1,186,240	968,429
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -	\$ -

# CITY OF PALESTINE, TEXAS

## *SCHEDULE OF FUNDING PROGRESS (1)*

### *POST-EMPLOYMENT HEALTHCARE BENEFITS*

**September 30, 2013**

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

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

***COMBINING STATEMENTS AND SCHEDULES***

# **CITY OF PALESTINE, TEXAS**

## ***NONMAJOR GOVERNMENTAL FUNDS***

**September 30, 2013**

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, 2013**

	<b>Special Revenue Funds</b>					
	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security	Municipal Court Technology
<b>ASSETS</b>						
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 122,693	\$ 184,014	\$ -	\$ -
Restricted cash and cash equivalents	388,340	160,295	-	-	10,548	6,449
Receivables	-	-	8,826	-	-	-
Restricted Receivables	-	32,821	-	-	-	-
Due from other funds	-	5,000	-	-	-	-
Restricted note receivables	11,797	-	-	-	-	-
Total Assets	\$ 400,137	\$ 198,116	\$ 131,519	\$ 184,014	\$ 10,548	\$ 6,449
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ 6,777	\$ 1,231	\$ -	\$ -	\$ -
Deferred Revenues	-	-	-	-	-	-
Due to other funds	-	-	11,804	-	-	-
Total Liabilities	-	6,777	13,035	-	-	-
<b>FUND BALANCES</b>						
Nonspendable:						
Notes receivables	-	-	-	-	-	-
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Public safety	-	-	-	-	10,548	6,449
Other Purposes	-	-	-	-	-	-
Economic Development	400,137	191,339	-	-	-	-
Committed for:						
Airport	-	-	118,484	-	-	-
Community forest	-	-	-	-	-	-
Cemetery	-	-	-	184,014	-	-
Unassigned	-	-	-	-	-	-
Total Fund Balances	400,137	191,339	118,484	184,014	10,548	6,449
Total Liabilities and Fund Balances	\$ 400,137	\$ 198,116	\$ 131,519	\$ 184,014	\$ 10,548	\$ 6,449

Gates Pac Hug Grant	Carnegie Library Memorial	Tobacco Grant	Equitable Sharing Federal Forfeitures	Police Confiscated Money	TXDot Depot Enhancement Project	Loop 256 Tree Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87	\$ -
1,723	16,149	7,060	31,766	60,306	-	1,034
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 1,723</u>	<u>\$ 16,149</u>	<u>\$ 7,060</u>	<u>\$ 31,766</u>	<u>\$ 60,306</u>	<u>\$ 87</u>	<u>\$ 1,034</u>
\$ 485	\$ -	\$ -	\$ -	\$ 22,197	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,197</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,238	16,149	7,060	31,766	38,109	-	-
-	-	-	-	-	-	1,034
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	87	-
<u>1,238</u>	<u>16,149</u>	<u>7,060</u>	<u>31,766</u>	<u>38,109</u>	<u>87</u>	<u>1,034</u>
<u>\$ 1,723</u>	<u>\$ 16,149</u>	<u>\$ 7,060</u>	<u>\$ 31,766</u>	<u>\$ 60,306</u>	<u>\$ 87</u>	<u>\$ 1,034</u>



# CITY OF PALESTINE, TEXAS

*COMBINING BALANCE SHEET (Page 2 of 2)*

**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2013**

	<b>Special Revenue Funds</b>					
	Community Forest	Fitness Grant	Search and Recovery Grant	Fire Prevention	PD Grants	Legacy in the Park
<b>ASSETS</b>						
Current Assets						
Cash and cash equivalents	\$ 2,603	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	-	5,940	7,445	30,180	6,858
Receivables	-	-	-	-	-	-
Restricted Receivables	-	-	-	-	-	-
Due from other funds	53,892	-	-	-	-	10,312
Note Receivables	-	-	-	-	-	-
Total Assets	\$ 56,495	\$ -	\$ 5,940	\$ 7,445	\$ 30,180	\$ 17,170
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ -	\$ 697	\$ -	\$ -	\$ -
Deferred Revenues	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total Liabilities	-	-	697	-	-	-
<b>FUND BALANCES</b>						
Nonspendable:						
Notes receivables	-	-	-	-	-	-
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Public safety	-	-	5,243	7,445	30,180	-
Other Purposes	-	-	-	-	-	17,170
Economic Development	-	-	-	-	-	-
Committed for:						
Airport	-	-	-	-	-	-
Community forest	56,495	-	-	-	-	-
Cemetery	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total Fund Balances	56,495	-	5,243	7,445	30,180	17,170
Total Liabilities and Fund Balances	\$ 56,495	\$ -	\$ 5,940	\$ 7,445	\$ 30,180	\$ 17,170

Generator Grant	Home Program	Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
			2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 309,397
-	-	-	-	21,335	-	-	755,428
-	47,842	-	-	-	-	-	56,668
-	-	49,964	-	-	-	-	82,785
-	-	576,565	11,652	44,478	225,142	16,000	943,041
-	-	-	-	-	-	-	11,797
<u>\$ -</u>	<u>\$ 47,842</u>	<u>\$ 626,529</u>	<u>\$ 11,652</u>	<u>\$ 65,813</u>	<u>\$ 225,142</u>	<u>\$ 16,000</u>	<u>\$ 2,159,116</u>
\$ -	\$ -	\$ -	\$ 5,318	\$ -	\$ -	\$ -	\$ 36,705
-	-	47,596	-	-	-	-	47,596
6,994	48,303	361,544	53,892	823	-	269,620	752,980
<u>6,994</u>	<u>48,303</u>	<u>409,140</u>	<u>59,210</u>	<u>823</u>	<u>-</u>	<u>269,620</u>	<u>837,281</u>
-	-	-	-	-	-	-	-
-	-	-	-	64,990	225,142	-	290,132
-	-	217,389	-	-	-	-	217,389
-	-	-	-	-	-	-	136,800
-	-	-	-	-	-	-	35,591
-	-	-	-	-	-	-	591,476
-	-	-	-	-	-	-	118,484
-	-	-	-	-	-	-	56,495
-	-	-	-	-	-	-	184,014
(6,994)	(461)	-	(47,558)	-	-	(253,620)	(308,546)
<u>(6,994)</u>	<u>(461)</u>	<u>217,389</u>	<u>(47,558)</u>	<u>64,990</u>	<u>225,142</u>	<u>(253,620)</u>	<u>1,321,835</u>
<u>\$ -</u>	<u>\$ 47,842</u>	<u>\$ 626,529</u>	<u>\$ 11,652</u>	<u>\$ 65,813</u>	<u>\$ 225,142</u>	<u>\$ 16,000</u>	<u>\$ 2,159,116</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, 2013**

	<b>Special Revenue Funds</b>					
	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security	Municipal Court Technology
<b>Revenues:</b>						
Taxes	\$ -	\$ 405,620	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	9,655	-	-	-
Charges for services	-	-	11,151	15,907	-	-
Fines and forfeitures	-	-	-	-	5,819	7,759
Rentals	-	14,180	180,685	-	-	-
Investment revenue	687	62	2	125	4	2
Other revenue	-	-	-	-	-	-
<b>Total revenues</b>	<b>687</b>	<b>419,862</b>	<b>201,493</b>	<b>16,032</b>	<b>5,823</b>	<b>7,761</b>
<b>Expenditures:</b>						
<b>Current</b>						
Public Safety	-	-	-	-	-	3,223
Community Services	-	317,862	41,173	-	-	-
Community Development	-	-	-	-	-	-
<b>Debt service</b>						
Principal	-	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>317,862</b>	<b>41,173</b>	<b>-</b>	<b>-</b>	<b>3,223</b>
Excess (deficiency) of revenues over (under) expenditures	687	102,000	160,320	16,032	5,823	4,538
<b>Other financing sources (uses):</b>						
Transfers in	-	-	20,000	-	-	-
Transfers out	-	(55,206)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(55,206)</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balance	687	46,794	180,320	16,032	5,823	4,538
Fund balances, October 1	399,450	144,545	(61,836)	167,982	4,725	1,911
Fund balances, September 30	<b>\$ 400,137</b>	<b>\$ 191,339</b>	<b>\$ 118,484</b>	<b>\$ 184,014</b>	<b>\$ 10,548</b>	<b>\$ 6,449</b>

Gates Pac Hug Grant	Carnegie Library Memorial	Tobacco Grant	Equitable Sharing Federal Forfeitures	Police Confiscated Money	TXDot Depot Enhancement Project	Loop 256 Tree Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	5,550	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	475	-	-
-	-	-	-	-	-	-
-	9	2	79	34	-	1
-	1,320	-	-	-	-	-
-	1,329	5,552	79	509	-	1
-	-	2,999	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	2,999	-	-	-	-
-	1,329	2,553	79	509	-	1
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,329	2,553	79	509	-	1
1,238	14,820	4,507	31,687	37,600	87	1,033
\$ 1,238	\$ 16,149	\$ 7,060	\$ 31,766	\$ 38,109	\$ 87	\$ 1,034

**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, 2013**

	<b>Special Revenue Funds</b>					
	Community Forest	Fitness Grant	Search and Recovery Grant	Fire Prevention	PD Grants	Legacy in the Park
<b>Revenues:</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	26,671	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Rentals	-	-	-	-	-	-
Investment revenue	36	-	3	23	4	6
Miscellaneous revenue	26,500	787	-	-	-	6,500
Total revenues	<u>26,536</u>	<u>787</u>	<u>3</u>	<u>23</u>	<u>26,675</u>	<u>6,506</u>
<b>Expenditures:</b>						
Current						
Public Safety	-	-	-	-	4,182	-
Community Services	26,350	787	-	-	-	-
Community Development	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-	-
Total expenditures	<u>26,350</u>	<u>787</u>	<u>-</u>	<u>-</u>	<u>4,182</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	186	-	3	23	22,493	6,506
<b>Other financing sources (uses):</b>						
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	186	-	3	23	22,493	6,506
Fund balances, October 1	56,309	-	5,240	7,422	7,687	10,664
Fund balances, September 30	<u>\$ 56,495</u>	<u>\$ -</u>	<u>\$ 5,243</u>	<u>\$ 7,445</u>	<u>\$ 30,180</u>	<u>\$ 17,170</u>

Generator Grant	Home Program	Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
			2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	
\$ -	\$ -	\$ 869,457	\$ -	\$ -	\$ -	\$ -	\$ 1,275,077
15,000	294,113	-	-	-	-	-	350,989
-	-	-	-	-	-	-	27,058
-	-	-	-	-	-	-	14,053
-	-	-	-	-	-	-	194,865
-	-	97	157	187	408	104	2,032
-	-	-	-	-	-	130,000	165,107
<u>15,000</u>	<u>294,113</u>	<u>869,554</u>	<u>157</u>	<u>187</u>	<u>408</u>	<u>130,104</u>	<u>2,029,181</u>
-	-	-	-	-	-	-	10,404
6,747	-	-	-	-	-	-	392,919
-	294,574	-	-	9,269	-	124,382	428,225
-	-	450,000	-	-	-	-	450,000
-	-	393,640	-	-	-	-	393,640
<u>6,747</u>	<u>294,574</u>	<u>843,640</u>	<u>-</u>	<u>9,269</u>	<u>-</u>	<u>124,382</u>	<u>1,675,188</u>
8,253	(461)	25,914	157	(9,082)	408	5,722	353,993
-	34,395	92,116	-	-	-	-	146,511
-	-	-	-	-	-	-	(55,206)
<u>-</u>	<u>34,395</u>	<u>92,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,305</u>
8,253	33,934	118,030	157	(9,082)	408	5,722	445,298
(15,247)	(34,395)	99,359	(47,715)	74,072	224,734	(259,342)	876,537
<u>\$ (6,994)</u>	<u>\$ (461)</u>	<u>\$ 217,389</u>	<u>\$ (47,558)</u>	<u>\$ 64,990</u>	<u>\$ 225,142</u>	<u>\$ (253,620)</u>	<u>\$ 1,321,835</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, 2013**

TOURISM AND CIVIC CENTER				
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenue:				
Taxes	\$ 397,337	\$ 397,337	\$ 405,620	\$ 8,283
Rentals	23,277	23,277	14,180	(9,097)
Interest	62	62	62	-
Total revenues	420,676	420,676	419,862	(814)
Expenditures:				
Community Services	357,232	357,232	317,862	39,370
Total expenditures	357,232	357,232	317,862	39,370
Excess (deficiency) of revenues over (under) expenditures	63,444	63,444	102,000	38,556
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(55,206)	(55,206)	(55,206)	-
Total other financing sources (uses)	(55,206)	(55,206)	(55,206)	-
Net change in fund balance	\$ 8,238	\$ 8,238	46,794	\$ 38,556
Fund balances, October 1			144,545	
Fund balances, September 30			\$ 191,339	

# 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, 2013

	AIRPORT			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Intergovernmental	\$ 8,000	\$ 8,000	\$ 9,655	\$ 1,655
Rentals	10,747	10,747	180,685	169,938
Charges for services	-	-	11,151	11,151
Other revenue	2,400	2,400	-	(2,400)
Interest	6	3	2	(1)
Total revenues	21,153	21,150	201,493	180,343
Expenditures:				
Community Services	41,109	41,109	41,173	(64)
Total expenditures	41,109	41,109	41,173	(64)
Excess (deficiency) of revenues over (under) expenditures	(19,956)	(19,959)	160,320	180,279
Other financing sources (uses):				
Transfers in	20,000	13,000	20,000	7,000
Total other financing sources (uses)	20,000	13,000	20,000	7,000
Net change in fund balance	44	(6,959)	180,320	187,279
Fund balances, October 1			(61,836)	
Fund balances, September 30			\$ 118,484	



**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, 2013**

	CEMETERY			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Charges for services	\$ 8,000	\$ 8,000	\$ 15,907	\$ 7,907
Interest	250	250	125	(125)
Total revenues	8,250	8,250	16,032	7,782
Expenditures:				
Community Services	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	8,250	8,250	16,032	7,782
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	\$ 8,250	\$ 8,250	16,032	\$ 7,782
Fund balances, October 1			167,982	
Fund balances, September 30			\$ 184,014	

**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, 2013**

	MUNICIPAL COURT TECHNOLOGY			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Fines	\$ 7,000	\$ 7,000	\$ 7,761	\$ 761
Total revenues	7,000	7,000	7,761	761
Expenditures:				
Public Safety	4,300	4,300	3,223	1,077
Total expenditures	4,300	4,300	3,223	1,077
Excess (deficiency) of revenues over (under) expenditures	2,700	2,700	4,538	1,838
Net change in fund balance	\$ 2,700	\$ 2,700	4,538	\$ 1,838
Fund balances, October 1			1,911	
Fund balances, September 30			\$ 6,449	

**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, 2013**

	MUNICIPAL COURT SECURITY			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Fines	\$ 5,000	\$ 5,000	\$ 5,819	\$ 819
Investment revenue	-	-	4	4
Total revenues	5,000	5,000	5,823	823
Expenditures:				
Public Safety	1,000	1,000	0	1,000
Total expenditures	1,000	1,000	0	1,000
Excess (deficiency) of revenues over (under) expenditures	4,000	4,000	5,823	1,823
Net change in fund balance	\$ 4,000	\$ 4,000	5,823	\$ 1,823
Fund balances, October 1			4,725	
Fund balances, September 30			\$ 10,548	

**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, 2013**

	DEBT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 858,017	\$ 858,017	\$ 869,457	\$ 11,440
Interest	1,170	1,170	97	(1,073)
Total revenues	<u>859,187</u>	<u>859,187</u>	<u>869,554</u>	<u>10,367</u>
Debt Service:				
Principal	985,000	985,000	450,000	535,000
Interest and fiscal charges	449,043	449,043	393,640	55,403
Total expenditures	<u>1,434,043</u>	<u>1,434,043</u>	<u>843,640</u>	<u>590,403</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(574,856)</u>	<u>(574,856)</u>	<u>25,914</u>	<u>600,770</u>
Other financing sources (uses)				
Transfers in	1,141,938	607,214	92,116	(515,098)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>1,141,938</u>	<u>607,214</u>	<u>92,116</u>	<u>(515,098)</u>
Net change in fund balance	<u>\$ 567,082</u>	<u>\$ 32,358</u>	118,030	<u>\$ 85,672</u>
Fund balances, October 1			<u>99,359</u>	
Fund balances, September 30			<u>\$ 217,389</u>	

**CITY OF PALESTINE, TEXAS**  
*INTERNAL SERVICE FUNDS*  
September 30, 2013

**Central Warehouse Fund**

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

**Health Insurance Fund**

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

**Workers Compensation Fund**

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

**Equipment Replacement Fund**

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

**Unemployment Fund**

This internal service fund is used to account for the costs associated with unemployment.

# CITY OF PALESTINE, TEXAS

## COMBINING STATEMENT OF NET POSITION

### INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2013

<b>ASSETS</b>	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
<b>Current Assets:</b>				
Cash and cash equivalents	\$ -	\$ 75,205	\$ 32,250	\$ 556,923
Due from other funds	13,500	23,029	142,757	-
Inventory	93,689	-	-	-
Total current assets	<u>107,189</u>	<u>98,234</u>	<u>175,007</u>	<u>556,923</u>
<b>Noncurrent Assets:</b>				
Capital Assets (net)	-	-	-	1,463,940
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,463,940</u>
 Total assets	 <u>\$ 107,189</u>	 <u>\$ 98,234</u>	 <u>\$ 175,007</u>	 <u>\$ 2,020,863</u>
 <b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 11,627	\$ 267,115	\$ -	\$ 18,713
Due to other funds	143,043	474,307	116,300	-
Long-term liabilities- due less than a year	10,197	-	-	196,154
Total current liabilities	<u>164,867</u>	<u>741,422</u>	<u>116,300</u>	<u>214,867</u>
<b>Noncurrent liabilities</b>				
Long-term liabilities - due more than a year	15,296	-	-	493,007
Total noncurrent liabilities	<u>15,296</u>	<u>-</u>	<u>-</u>	<u>493,007</u>
 Total Liabilities	 180,163	 741,422	 116,300	 707,874
 <b>NET POSITION</b>				
Invested in capital assets, net of related debt	-	-	-	774,779
Unrestricted	(72,974)	(643,188)	58,707	538,210
Total net position	<u>(72,974)</u>	<u>(643,188)</u>	<u>58,707</u>	<u>1,312,989</u>
 Total Liabilities and Net Position	 <u>\$ 107,189</u>	 <u>\$ 98,234</u>	 <u>\$ 175,007</u>	 <u>\$ 2,020,863</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 329,549	\$ 993,927
-	179,286
-	93,689
<u>329,549</u>	<u>1,266,902</u>
-	1,463,940
-	1,463,940
<u>\$ 329,549</u>	<u>\$ 2,730,842</u>
\$ 5,077	\$ 302,532
-	733,650
-	206,351
<u>5,077</u>	<u>1,242,533</u>
-	508,303
-	508,303
5,077	1,750,836
-	774,779
<u>324,472</u>	<u>205,227</u>
<u>324,472</u>	<u>980,006</u>
<u>\$ 329,549</u>	<u>\$ 2,730,842</u>

**CITY OF PALESTINE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
<b>OPERATING REVENUES:</b>				
Charges for Services and Sales	\$ 674,892	\$ 2,355,509	\$ 86,342	\$ 202,522
Total Operating Revenues	<u>674,892</u>	<u>2,355,509</u>	<u>86,342</u>	<u>202,522</u>
<b>OPERATING EXPENSES:</b>				
Cost of Services	713,783	2,151,271	134,619	1,779
Depreciation	-	-	-	297,908
Total Operating Expenses	<u>713,783</u>	<u>2,151,271</u>	<u>134,619</u>	<u>299,687</u>
Operating Income (loss)	<u>(38,891)</u>	<u>204,238</u>	<u>(48,277)</u>	<u>(97,165)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest revenue	-	327	195	438
Interest expense	-	-	-	(27,723)
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>327</u>	<u>195</u>	<u>(27,285)</u>
<b>Net Income (Loss) before transfers</b>	<u>(38,891)</u>	<u>204,565</u>	<u>(48,082)</u>	<u>(124,450)</u>
Transfer in	5,000	-	-	-
Transfer out	-	-	-	-
<b>Change in net position</b>	<u>(33,891)</u>	<u>204,565</u>	<u>(48,082)</u>	<u>(124,450)</u>
Net position, October 1	<u>(39,083)</u>	<u>(847,753)</u>	<u>106,789</u>	<u>1,437,439</u>
Net position, September 30	<u>\$ (72,974)</u>	<u>\$ (643,188)</u>	<u>\$ 58,707</u>	<u>\$ 1,312,989</u>



<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ -	\$ 3,319,265
<u>-</u>	<u>3,319,265</u>
-	3,001,452
-	297,908
<u>-</u>	<u>3,299,360</u>
-	19,905
184	1,144
-	(27,723)
<u>184</u>	<u>(26,579)</u>
184	(6,674)
-	5,000
-	-
<u>184</u>	<u>(1,674)</u>
324,288	981,680
<u>\$ 324,472</u>	<u>\$ 980,006</u>

# CITY OF PALESTINE, TEXAS

## COMBINING STATEMENT OF CASH FLOWS

### ALL INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	CENTRAL WAREHOUSE	HEALTH INSURANCE	WORKERS' COMPENSATION
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Interfund services provided	\$ 674,892	\$ 2,355,509	\$ 86,342
Cash Payments to Other Suppliers for Goods and Services	(689,049)	(2,151,323)	(134,619)
Internal Activity-payments from other funds	9,157	-	-
Internal Activity-payments to other funds	-	(171,646)	(142,757)
Net Cash Provided ( Used) by Operating Activities	(5,000)	32,540	(191,034)
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Transfer from other funds	5,000	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	5,000	-	-
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Principal paid on capital debt	-	-	-
Interest paid on capital debt	-	-	-
Proceeds from capital debt	-	-	-
Acquisition and Construction of Capital Assets	-	-	-
Proceeds from sale of assets	-	-	-
Net Cash Provided (Used) for Capital and Related Financing Activities	-	-	-
<b>Cash Flows from Investing Activities:</b>			
Interest received	-	327	195
Net Cash Provided (Used) for Investing Activities	-	327	195
Net Increase (Decrease) in Cash and Cash Equivalents	-	32,867	(190,839)
<b>Cash and Cash Equivalents at Beginning of Year</b>	-	42,338	223,089
<b>Cash and Cash Equivalents at End of Year</b>	\$ -	\$ 75,205	\$ 32,250
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	(38,891)	204,238	(48,277)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	-	-	-
Change in Assets and Liabilities			
Decrease (Increase) in Inventories	13,829	-	-
Increase (Decrease) in Accounts Payable	10,905	(52)	-
Increase (Decrease) in Interfund payable	9,157	(171,646)	(142,757)
Total Adjustments	33,891	(171,698)	(142,757)
Net Cash Provided (Used) by Operating Activities	\$ (5,000)	\$ 32,540	\$ (191,034)
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>			
Borrowing under capital lease			
Total noncash investing, capital and financing activities:	\$ -	\$ -	\$ -

EQUIPMENT REPLACEMENT		UNEMPLOYMENT	TOTAL
\$	202,522	\$ -	\$ 3,319,265
	(1,779)	-	(2,976,770)
	501,675	-	510,832
	-	-	(314,403)
	<u>702,418</u>	<u>-</u>	<u>538,924</u>
	-	-	5,000
	-	-	5,000
	(272,656)	-	(272,656)
	(9,010)	-	(9,010)
	-	-	-
	(199,269)	-	(199,269)
	-	-	-
	<u>(480,935)</u>	<u>-</u>	<u>(480,935)</u>
	438	184	1,144
	<u>438</u>	<u>184</u>	<u>1,144</u>
	221,921	184	64,133
	335,002	329,365	929,794
\$	<u>556,923</u>	\$ <u>329,549</u>	\$ <u>993,927</u>
	(97,165)	-	19,905
	297,908		297,908
	-	-	13,829
	-	-	10,853
	501,675	-	196,429
	<u>799,583</u>	<u>-</u>	<u>519,019</u>
\$	<u>702,418</u>	\$ <u>-</u>	\$ <u>538,924</u>
\$	<u>188,952</u>	\$ <u>-</u>	\$ <u>188,952</u>