

ANNUAL FINANCIAL REPORT

of the

CITY OF PALESTINE, TEXAS

For the Year Ended September 30, 2010

Officials Issuing Report:

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

CITY OF PALESTINE, TEXAS
TABLE OF CONTENTS
September 30, 2010

INTRODUCTORY SECTION

Letter of Transmittal	2
-----------------------	---

FINANCIAL SECTION

Independent Auditors' Report	7
-------------------------------------	---

Management's Discussion and Analysis	10
---	----

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Assets	19
Statement of Activities	20

Fund Financial Statements Governmental Funds Financial Statements

Balance Sheet - Governmental Funds	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25

Proprietary Funds Financial Statements

Statement of Net Assets	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets	28
Statement of Cash Flows	30

Notes to Financial Statements	34
--------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: General Fund	56
Schedule of Funding Progress - Texas Municipal Retirement System	57
Schedule of Funding Progress - Post-Employment Healthcare Benefits	58

COMBINING STATEMENTS AND SCHEDULES

Combining Balance Sheet - Nonmajor Governmental Funds	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	65

CITY OF PALESTINE, TEXAS
TABLE OF CONTENTS, Continued
September 30, 2010

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: Special	
Revenue:	
Economic Development Grant	69
Tourism and Civic Center	70
Airport	71
Cemetery	72
Municipal Court Technology	73
Municipal Court Security	74
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund	75
Combining Statement of Net Assets - Internal Service Funds	77
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets- Internal Service Funds	79
Combining Statement of Cash Flows - Internal Service Funds	81

INTRODUCTORY SECTION



City of Palestine

April 19, 2011

Honorable Mayor, City Council, and Citizens of the City of Palestine, Texas:

The Finance Department and City Manager's Office are pleased to submit the Annual Financial Report for the City of Palestine, Texas (the City), for the year ended September 30, 2010.

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

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also consider that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

As required by the City's charter, the financial statements have been audited by Frank Campos, CPA, PLLC. The goal of the independent audit was to provide reasonable assurances that the financial statements of the City of Palestine for the fiscal year ended September 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Palestine's financial statements for fiscal year ended September 30, 2010, are presented in conformity with generally accepted accounting principles (GAAP).

THE REPORT

This Annual Financial Report is presented in two sections: Introductory and Financial. The introductory section includes this transmittal letter. The financial section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with the MD&A. The City of Palestine's MD&A can be found immediately following the report of the independent auditor.

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

CITY PROFILE

Location

The City is located in the Piney Woods of East Texas in the geographic center of Anderson County. Palestine is 100 miles southeast of Dallas and 160 miles north of Houston. The City is located on a ridge between the Neches and Trinity Rivers, offering beautiful rolling hills covered by tall pine trees. The City has a major rail corridor and several state and federal highways that traverse the City, creating a major commercial and residential hub for the Anderson County region. The City encompasses approximately 19.5 square miles as well as an extensive extraterritorial jurisdiction. Being a community of significant regional importance for well over 100 years, Palestine is rich in history and culture making it a recognized tourist destination. The Texas State Railroad operates several historical trains that provide a unique living history to those who visit this local park. The City is a short distance from the impressive Lake Palestine to the north and grand fishing at Richland-Chambers Lake to the west. The City is proud of its natural resources and offers over a thousand acres of city parkland for its citizens and visitors to enjoy.

Organization

The City was incorporated in 1848, and currently operates under a Council-Manager form of government. The City Council is comprised of a Mayor and six council members, and is responsible for enacting legislation in the form of ordinances, resolutions, and regulations governing the City, as well as the Mayor appointing members of various statutory and advisory boards.

The City Manager is the chief administrative officer of the City, and is responsible for enforcement of laws and ordinances, as well as appointment of the various department heads of the municipal organization.

Services Provided

The City provides to its citizens those services that have proven to be necessary and meaningful and which the City can provide at the least cost. Major services provided under general government and enterprise functions are: fire and rescue, police, streets, water and wastewater utilities, solid waste, code enforcement, parks and recreation, public improvements, community development and planning, and general administrative services. The City also offers the Civic Center and is aggressive in servicing the region's economic development.

Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls as deemed appropriate by the City Manager. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by the City Manager. All internal control evaluations occur within the above framework, Internal controls are designed to provide reasonable, but not absolute assurance regarding (1) safeguarding of assets

against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The City believes that its internal controls adequately safeguard and provide reasonable assurance from improper recording of financial transactions. The City's controls are designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned duties.

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

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Regional Economy

Palestine and the surrounding area have experienced a downturn local economy during 2010, with a continued positive outlook even amid a national recession that will surely be remembered as one of the nation's most difficult economic challenges. The City of Palestine has been insulated, primarily from the housing crisis, and even benefited from the increase in oil and gas prices that peaked to historic rates at the end of the fiscal year. Unemployment, nationally, has taken a toll of jobs over this recession period and the City of Palestine lost several employers over the last few years. Palestine still has major employers. One major employer in Palestine is the Texas Department of Corrections which houses over 12,000 inmates and provides over 21% of county employment opportunities. Other stable employers include the Wal-Mart Distribution and Retail Centers with 2,200 employees and a large hospital system with over 800 employees and two 3A independent school districts within the city limits.

As one of the older cities in Texas, Palestine has a large number of historic landmarks. This combined with the native beauty of the area, the nearby Texas State Railroad, and several festivals, make tourism a significant part of the economy.

The City has worked hard in attracting a diversity of jobs relating to retail, distribution, destination tourism, medical and light manufacturing, several hotel chains, a large medical clinic and

several assisted living centers. The community is excited about our future with the recent opening of the University of Texas at Tyler expanded campus for the growing student body at Palestine.

Cash Management

The City's investment policy defines the parameters by which the City's investments are made. The objectives of the policy are safety, liquidity, and yield, of which safety is of primary importance. Idle cash is pooled for short-term investment in collateralized bank certificates of deposit, U.S. government obligations or in TexPool or TexSTAR, state investment pools.

Risk Management

Insurance coverage for property, liability, and workers' compensation is provided by the Texas Municipal League Intergovernmental Risk Pool (the Risk Pool), a State Insurance Pool. Contributions to the Risk Pool for workers' compensation rates are based on the City's past claims history. The Risk Pool retains a limit of loss and reinsurance companies insure the risks beyond those limits. During the fiscal year, representatives from the Risk Pool physically reviewed City facilities to identify possible risks.

Through September 30, 2000, the City had a self-funded workers' compensation fund with stop loss insurance for larger claims. Effective October 1, 2000, the City converted to a fully insured workers' compensation program. Due to favorable results and intended over-funding in prior years, the fund balance in the Workers' Compensation Fund of \$244,681 is considered by plan administrators and City staff to be far more than needed for any possible unexpected claim losses that existed prior to ending self insurance.

Independent Audit

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

ACKNOWLEDGEMENTS

Acknowledgements

In closing, without the dedication of the employees and the direction of the Mayor and members of City Council, preparation of this report would not have been possible. As Finance Director, I want to express my sincere appreciation to our employees who have demonstrated their professionalism and abilities in management of the financial function. I also want to thank the Mayor and City Council for their support in planning and conducting financial operations of the City with progressive leadership.

Respectfully submitted,

Elizabeth Sanders Saegert, CPA

FINANCIAL SECTION

FRANK CAMPOS, CPA

A Professional Limited Liability Company

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas (the City), as of September 30, 2010 and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Palestine's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion analysis on pages 10-17 and budgetary comparison information on pages 56, pension information on page 57 and post-employment healthcare benefit and page 58 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

Member of Texas Society of CPAs and American Institute of CPAs

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

Fax 903-723-2558

context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Frank Campos

Frank Campos, CPA, PLLC
April 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
September 30, 2010

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, 2010. 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 annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

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

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

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

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

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

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

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2010

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 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 *on 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 23 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 each 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 two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, and solid waste operations. The proprietary fund financial statements provide separate information for the water distribution, wastewater collection/treatment, and solid waste 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, 2010

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 \$36,162,397 as of yearend in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year. The largest portion of the City's net assets (71%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

SUMMARY OF STATEMENT OF NET ASSETS

	Governmental Activities		Business -type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 5,154,648	\$ 6,732,877	\$ 13,949,752	\$ 9,786,811	\$ 19,104,400	\$ 16,519,688
Capital assets	21,311,236	21,959,800	26,165,822	22,610,243	47,477,058	44,570,043
Total assets	26,465,884	28,692,677	40,115,574	32,397,054	66,581,458	61,089,731
Other liabilities	1,332,285	838,677	1,285,565	1,079,869	2,617,850	1,918,546
Long-term liabilities	12,334,107	5,345,140	15,467,104	15,926,396	27,801,211	21,271,536
Total liabilities	13,666,392	6,183,817	16,752,669	17,006,265	30,419,061	23,190,082
Net Assets:						
Invested in capital assets, net of related debt	10,638,424	18,132,593	15,027,092	8,317,055	25,665,516	26,449,648
Restricted	1,634,759	1,940,791	5,947,381	4,921,621	7,582,140	6,862,412
Unrestricted	526,309	2,435,476	2,388,432	2,152,113	2,914,741	4,587,589
Total net assets	\$ 12,799,492	\$ 22,508,860	\$ 23,362,905	\$ 15,390,789	\$ 36,162,397	\$ 37,899,649

A portion of the primary government's net assets, \$7,582,140, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$2,914,741, may be used to meet the City's ongoing obligation to citizens and creditors. The overall financial condition of the City slightly decreased during the year due to having more expenses and not receiving as much revenue as expected due to the decline in the economy.

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

September 30, 2010

Statement of Activities

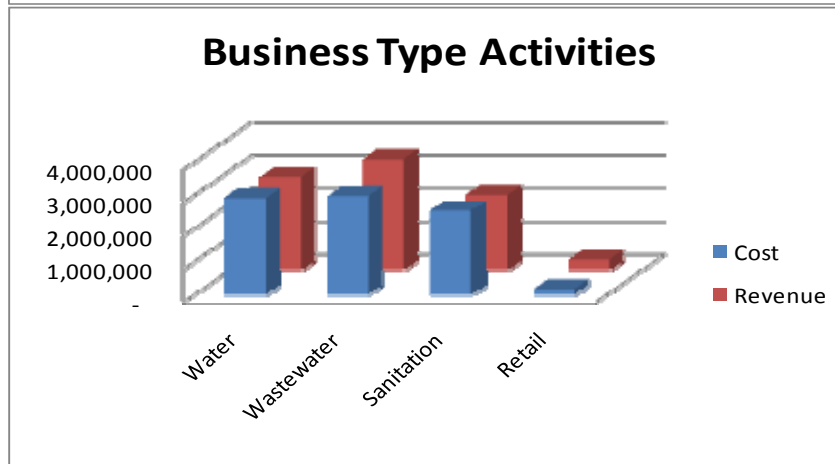
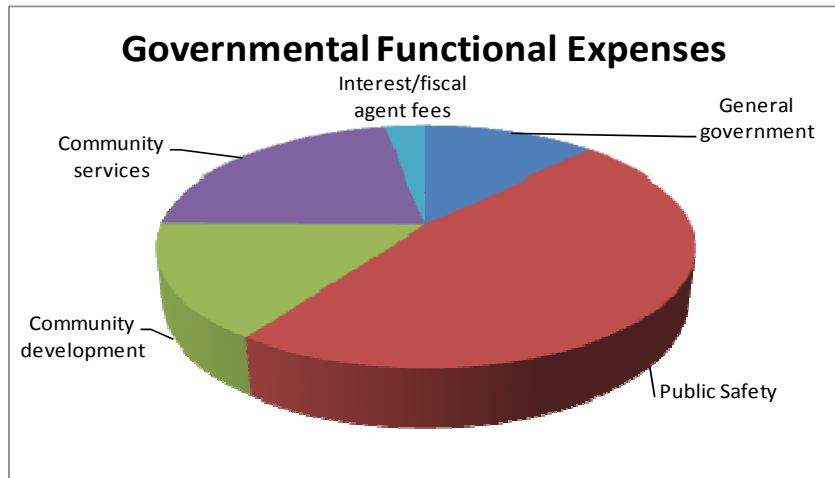
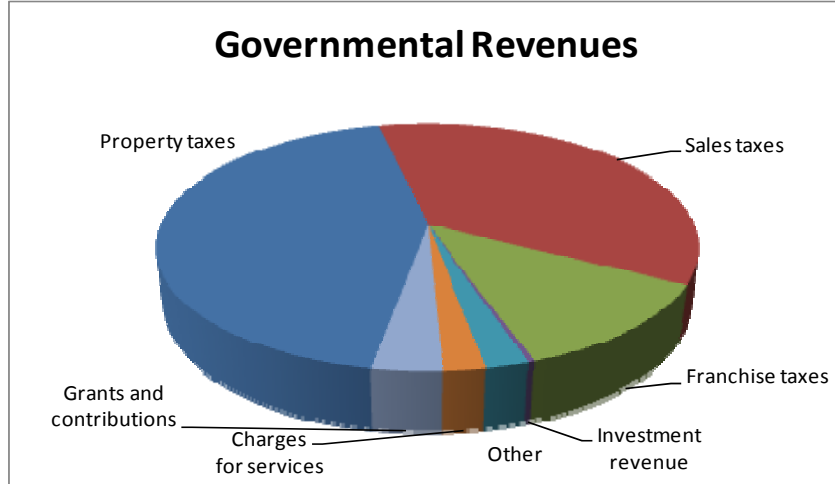
The following table provides a summary of the City's changes in net assets:

CITY OF PALESTINE'S CHANGES IN NET ASSETS

	Governmental Activities		Business -type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 948,927	\$ 922,898	\$ 8,820,313	\$ 7,912,746	\$ 9,769,240	\$ 8,835,644
Operating grants and contributions	285,923	946,804	-	-	285,923	946,804
Capital grants and contributions	175,280	-	148,334	-	323,614	-
General revenues:						
Property taxes	5,780,079	5,655,148	-	-	5,780,079	5,655,148
Sales taxes	5,118,332	5,373,656	-	-	5,118,332	5,373,656
Franchise taxes	1,227,490	922,516	-	-	1,227,490	922,516
Investment earnings	41,719	81,553	56,060	49,644	97,779	131,197
Miscellaneous	123,808	189,189	-	-	123,808	189,189
Total revenues	<u>13,701,558</u>	<u>14,091,764</u>	<u>9,024,707</u>	<u>7,962,390</u>	<u>22,726,265</u>	<u>22,054,154</u>
Expenses:						
General government	1,746,493	2,837,451	-	-	1,746,493	2,837,451
Public safety	7,670,153	7,081,097	-	-	7,670,153	7,081,097
Community services	4,710,114	4,440,357	-	-	4,710,114	4,440,357
Community development	1,601,529	1,085,381	-	-	1,601,529	1,085,381
Interest on long-term debt	486,914	184,033	-	-	486,914	184,033
Water	-	-	2,908,460	2,610,965	2,908,460	2,610,965
Wastewater	-	-	2,888,087	2,726,919	2,888,087	2,726,919
Sanitation	-	-	2,277,362	1,816,866	2,277,362	1,816,866
Retail	-	-	190,662	-	190,662	-
Total expenses	<u>16,215,203</u>	<u>15,628,319</u>	<u>8,264,571</u>	<u>7,154,750</u>	<u>24,479,774</u>	<u>22,783,069</u>
Increases (decreases) in net assets before transfers						
	(2,513,645)	(1,536,555)	760,136	807,640	(1,753,509)	(728,915)
Extraordinary item - destruction of govt. prop.						
	16,257	-	-	-	16,257	-
Transfers						
	(7,211,980)	(608,621)	7,211,980	608,621	-	-
Change in net assets						
	(9,709,368)	(2,145,176)	7,972,116	1,416,261	(1,737,252)	(728,915)
Net Assets - beginning						
	<u>22,508,860</u>	<u>24,654,036</u>	<u>15,390,789</u>	<u>13,974,528</u>	<u>37,899,649</u>	<u>38,628,564</u>
Net Assets - ending						
	<u>\$ 12,799,492</u>	<u>\$ 22,508,860</u>	<u>\$ 23,362,905</u>	<u>\$ 15,390,789</u>	<u>\$ 36,162,397</u>	<u>\$ 37,899,649</u>

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2010

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, 2010

For the year, revenue from governmental activities totaled \$13,701,558. Property and sales tax revenues are the City's largest revenue sources. Property tax revenues increased by 4.40%. Sales tax revenue decreased by 4.8% because of the local economy decline in 2010 that affected the entire country.

Franchise fees collected from electric, gas, cable, and telephone/telecommunications utilities, totaled \$1,227,490 for the year, an increase of 33% from the prior year.

For the year, expenses for governmental activities totaled \$16,215,203. This represents an increase of \$586,884 over last year. The increase is comparable to the prior year.

Business-type activities net assets increased by \$7,972,116, which is largely attributable to the increase transfers from governmental activities for capital projects.

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, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$3,422,121. Of this, \$548,703 is reported in special revenue funds, \$993,075 is reported in capital project funds, \$584,375 is reported for note receivables and \$92,981 is reserved for debt service. The remaining \$1,202,987 is unreserved in the general fund.

The general fund reported a decrease in fund balance due to a decrease in sales tax, and investment revenue for the current year and transfer of million dollars to enterprise funds for capital projects.

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 \$201,538 in the general fund. However, the net change in fund balance decreased by \$1,247,463 resulting in a negative variance of \$1,045,925 from budgeted as amended over actual.

CAPITAL ASSETS

At year end, the City's governmental activities funds had invested \$21,311,236 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 \$1,780,282.

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

- Purchase of police and fire vehicles
- Purchase of Palestine Mall
- Infrastructure improvements

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2010

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

CITY OF PALESTINE'S CAPITAL ASSETS AT YEAR END

	Governmental Activities		Business -type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,720,328	\$ 1,587,542	\$ 1,800,469	\$ 67,123	\$ 3,520,797	\$ 1,654,665
Buildings	6,097,050	6,834,493	9,689,088	8,135,529	15,786,138	14,970,022
Improvements	7,473,888	7,337,292	-	-	7,473,888	7,337,292
Machinery and equipment	7,997,408	7,353,931	237,694	212,081	8,235,102	7,566,012
Infrastructure	30,134,299	30,134,299	31,648,869	30,871,555	61,783,168	61,005,854
Construction in progres	135,370	-	3,821,109	2,919,952	3,956,479	2,919,952
Less accumulated depreciation	(32,247,107)	(31,287,757)	(21,031,407)	(19,595,997)	(53,278,514)	(50,883,754)
Net Assets - ending	<u>\$ 21,311,236</u>	<u>\$ 21,959,800</u>	<u>\$ 26,165,822</u>	<u>\$ 22,610,243</u>	<u>\$ 47,477,058</u>	<u>\$ 44,570,043</u>

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

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation outstanding of \$9,972,000. During the year the City sold \$6,777,000 in certificates of obligations.

During the year, the City sold \$938,582 in revenue bonds within business-type activities. At year end \$14,997,448 in revenue bonds was outstanding.

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

CITY OF PALESTINE'S OUTSTANDING DEBT AT YEAR END

	Governmental Activities		Business -type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Capital leases	\$ 700,812	\$ 518,531	\$ 384,278	\$ 569,926	\$ 1,085,090	\$ 1,088,457
Revenue Bonds	-	-	\$ 14,997,448	\$ 15,255,000	14,997,448	15,255,000
Certificates of obligation	9,972,000	3,455,000	-	-	9,972,000	3,455,000
Total	<u>\$ 10,672,812</u>	<u>\$ 3,973,531</u>	<u>\$ 15,381,726</u>	<u>\$ 15,824,926</u>	<u>\$ 26,054,538</u>	<u>\$ 19,798,457</u>

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

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The national unemployment rate for September 2010 was 9.6% and the State of Texas rate was 8.0%. The Anderson County unemployment rate has historically run slightly higher than the state average and was recorded at 9.1% which is a .4% decrease from September of 2009. The national economic condition has supplied a great deal of caution into our local employment expansion and business commerce. Much of the economic climate and data for the community suggest that the national economy is actually suppressing the growth potential in the local economy. The region has been insulated from most of the national economic hardships that are more deeply felt outside East Texas. Some uncertainty and decline in the consumer confidence has been related to the prolonged national economic outlook. On the other hand, it is believed that job availability and opportunity does exist and if the downturn continued these jobs would be obtainable by qualified persons. One such example of job availability is employment with the State of Texas at one of the area correctional facilities.

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

The local economy has managed to endure what is believed to be the tail end of the national recession with predictions that the decline may be over in 2010; the local economy has seen an increase in sales tax collections in the first and second quarter of 2011 fiscal year. The City will continue to aggressively pursue ways to expand the community resources and create greater economic opportunities for its citizens so that the City can endure the national economy downturn and land with our feet first as the City races to build the market as the national economy recovers.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Elizabeth Saegert, Finance Director, 504 N. Queen, Palestine, TX, 75801, telephone 903.731.8439, or email esaegert@palestine-tx.org.

BASIC FINANCIAL STATEMENTS

CITY OF PALESTINE, TEXAS

STATEMENT OF NET ASSETS

September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,220,833	\$ 464,725	\$ 1,685,558	\$ 1,319,050
Receivable (net of allowance of doubtful accounts)	1,658,697	1,169,669	2,828,366	174,874
Prepaid items	-	-	-	85,945
Inventories	135,898	-	135,898	-
Internal Balances	387,253	(387,253)	-	-
Total Current Assets	<u>3,402,681</u>	<u>1,247,141</u>	<u>4,649,822</u>	<u>1,579,869</u>
Noncurrent Assets				
Cash and cash equivalents (restricted)	1,167,592	12,070,706	13,238,298	-
Deffered charges (net)	-	631,905	631,905	19,407
Notes receivable	584,375	-	584,375	828,398
Capital Assets :				
Nondepreciable	1,855,698	5,621,578	7,477,276	1,009,435
Depreciable, net	19,455,538	20,544,244	39,999,782	3,356,622
Total Noncurrent Assets	<u>23,063,203</u>	<u>38,868,433</u>	<u>61,931,636</u>	<u>5,213,862</u>
Total Assets	<u>\$ 26,465,884</u>	<u>\$ 40,115,574</u>	<u>\$ 66,581,458</u>	<u>\$ 6,793,731</u>
LIABILITIES				
Bank overdraft	\$ 13,784	\$ -	\$ 13,784	\$ -
Accounts payable and accrued Liabilities	943,196	580,220	1,523,416	43,715
Accrued interest payable	375,305	82,272	457,577	-
Water meter Deposits - Refundable	-	623,073	623,073	-
Unearned revenue	-	-	-	895,092
Non-current Liabilities:				
Due within a year	1,140,612	1,610,427	2,751,039	236,294
Due in more than a year	11,193,495	13,856,677	25,050,172	4,185,097
Total Liabilities	<u>13,666,392</u>	<u>16,752,669</u>	<u>30,419,061</u>	<u>5,360,198</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	10,638,424	15,027,092	25,665,516	(55,334)
Restricted For:				
Debt Service	92,981	1,755,841	1,848,822	-
Capital Projects	993,075	4,191,540	5,184,615	-
Special Revenue	548,703	-	548,703	-
Unrestricted	526,309	2,388,432	2,914,741	1,488,867
Total Net Assets	<u>\$ 12,799,492</u>	<u>\$ 23,362,905</u>	<u>\$ 36,162,397</u>	<u>\$ 1,433,533</u>

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,746,493	\$ -	\$ 204,903	60,000
Public Safety	7,670,153	471,100	6,020	103,913
Community Services	4,710,114	294,902	75,000	11,367
Community Development	1,601,529	182,925	-	-
Interest expense on long term debt	486,914	-	-	-
Total Governmental Activities	16,215,203	948,927	285,923	175,280
Business-type Activities				
Water fund	2,908,460	2,833,492	-	148,334
Waste Water fund	2,888,087	3,367,278	-	-
Sanitation	2,277,362	2,272,629	-	-
Retail	190,662	346,914	-	-
Total Business-type Activities	8,264,571	8,820,313	-	148,334
Total Primary Government	\$ 24,479,774	\$ 9,769,240	\$ 285,923	\$ 323,614
Component Unit				
PEDC	\$ 1,025,055	\$ 60,000	\$ 60,000	\$ -

General Revenues:

Property Taxes

Franchise Taxes

Sales and Use Taxes

Investment Earnings

Miscellaneous

Extraordinary item - gain on
destruction of government facility

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, beginning

Net Assets, ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government		Component Unit	
Governmental Activities	Business- type Activities	Total	PEDC
\$ (1,481,590)	\$ -	\$ (1,481,590)	\$ -
(7,089,120)	-	(7,089,120)	-
(4,328,845)	-	(4,328,845)	-
(1,418,604)	-	(1,418,604)	-
(486,914)	-	(486,914)	-
<u>(14,805,073)</u>	<u>-</u>	<u>\$ (14,805,073)</u>	<u>-</u>
-	73,366	73,366	-
-	479,191	479,191	-
-	(4,733)	(4,733)	-
<u>-</u>	<u>156,252</u>	<u>156,252</u>	<u>-</u>
<u>-</u>	<u>704,076</u>	<u>704,076</u>	<u>-</u>
<u>(14,805,073)</u>	<u>704,076</u>	<u>(14,100,997)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(905,055)</u>
5,780,079	-	5,780,079	-
1,227,490	-	1,227,490	-
5,118,332	-	5,118,332	946,911
41,719	56,060	97,779	6,073
123,808	-	123,808	-
16,257	-	16,257	-
<u>(7,211,980)</u>	<u>7,211,980</u>	<u>-</u>	<u>-</u>
<u>5,095,705</u>	<u>7,268,040</u>	<u>12,363,745</u>	<u>952,984</u>
(9,709,368)	7,972,116	(1,737,252)	47,929
<u>22,508,860</u>	<u>15,390,789</u>	<u>37,899,649</u>	<u>1,385,604</u>
<u>\$ 12,799,492</u>	<u>\$ 23,362,905</u>	<u>\$ 36,162,397</u>	<u>\$ 1,433,533</u>

CITY OF PALESTINE, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and cash equivalents	\$ 629,952	\$ 258,394	\$ 888,346
Restricted Cash and cash equivalents	-	1,167,592	1,167,592
Receivables, net	393,749	78,219	471,968
Due from other Agencies	305,241	-	305,241
Due from other Governments	881,488	-	881,488
Due from other funds	456,387	612,190	1,068,577
Notes Receivable	500,000	84,375	584,375
Total Assets	<u>\$ 3,166,817</u>	<u>\$ 2,200,770</u>	<u>\$ 5,367,587</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 418,639	\$ 64,416	\$ 483,055
Deferred Revenue Taxes	317,171	34,421	351,592
Due to other funds	<u>728,020</u>	<u>382,799</u>	<u>1,110,819</u>
Total Liabilities	<u>1,463,830</u>	<u>481,636</u>	<u>1,945,466</u>
Fund balances:			
Reserved:			
Reserve for note receivables	500,000	84,375	584,375
Reserve for debt service	-	92,981	92,981
Reserve for capital projects	-	993,075	993,075
Unreserved:			
Undesignated In:			
General fund	1,202,987	-	1,202,987
Special revenue fund	-	548,703	548,703
Total Fund balances	<u>1,702,987</u>	<u>1,719,134</u>	<u>3,422,121</u>
 Total Liabilities and Fund Balances	 <u>\$ 3,166,817</u>	 <u>\$ 2,200,770</u>	 <u>\$ 5,367,587</u>

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2010

Total fund balances - governmental funds balance sheet	\$ 3,422,121
<p>Amounts reported for governmental activities in the statement of net assets (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	1,855,698
Capital assets, depreciable	17,826,208
<p>Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds</p>	
	351,592
<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>	
	1,348,773
<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	(371,605)
Noncurrent liabilities due in one year	(920,000)
Noncurrent liabilities due in more than one year	<u>(10,713,295)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 12,799,492</u>

CITY OF PALESTINE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes	\$ 11,328,781	\$ 748,802	\$ 12,077,583
License, permits and fees	182,925	-	182,925
Intergovernmental	279,903	181,300	461,203
Charges for services	25,728	269,174	294,902
Fines and Forfeitures	453,210	17,890	471,100
Investment	33,480	8,239	41,719
Other revenues	278,122	5,488	283,610
Total revenues	<u>12,582,149</u>	<u>1,230,893</u>	<u>13,813,042</u>
Expenditures:			
General government	1,613,752	-	1,613,752
Public Safety	6,909,060	135,466	7,044,526
Community Services	3,995,224	527,550	4,522,774
Community Development	769,939	590,140	1,360,079
Debt service:			
Principal	-	260,000	260,000
Interest and fiscal charges	-	131,975	131,975
Total expenditures	<u>13,287,975</u>	<u>1,645,131</u>	<u>14,933,106</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(705,826)</u>	<u>(414,238)</u>	<u>(1,120,064)</u>
Other financing sources (uses):			
Transfers in	491,444	33,501	524,945
Transfers out	(1,033,081)	(6,703,844)	(7,736,925)
Issuance of Long-term debt	-	6,777,000	6,777,000
Total other financing sources (uses)	<u>(541,637)</u>	<u>106,657</u>	<u>(434,980)</u>
Net change in fund balance	(1,247,463)	(307,581)	(1,555,044)
Fund balances, October 1	<u>2,950,450</u>	<u>2,026,715</u>	<u>4,977,165</u>
Fund balances, September 30	<u>\$ 1,702,987</u>	<u>\$ 1,719,134</u>	<u>\$ 3,422,121</u>

See Notes to Financial Statements.

CITY OF PALESTINE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Net change in fund balances - total governmental funds \$ (1,555,044)

Amounts reported for governmental activities in the statement of activities (SOA) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	833,051
Depreciation	(1,446,568)

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.

(6,777,000)

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds

48,318

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.

(381,846)

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.

(430,279)

Change in net assets of governmental activities - statement of net assets

\$ (9,709,368)

CITY OF PALESTINE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2010

	Business-Type Activities-Enterprise Funds				Total
	Water	Wastewater	Sanitation	Retail	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 208,370	\$ 223,608	\$ 32,747	\$ -	\$ 464,725
Receivable (net)	350,019	402,265	417,385	-	1,169,669
Inventory	-	-	-	-	-
Due from other funds	499,152	92,865	-	147,298	739,315
Total Current Assets	<u>1,057,541</u>	<u>718,738</u>	<u>450,132</u>	<u>147,298</u>	<u>2,373,709</u>
Noncurrent Assets:					
Cash and cash equivalents (restricted)	5,637,315	6,024,625	-	408,766	12,070,706
Deferred charges (net)	141,592	461,229	-	29,084	631,905
Capital Assets					
Nondepreciable	1,765,807	1,983,702	20,281	1,851,788	5,621,578
Depreciable, net	8,522,338	10,509,540	-	1,512,366	20,544,244
Total Capital Assets					
(Net of Accumulated Depreciation)	<u>10,288,145</u>	<u>12,493,242</u>	<u>20,281</u>	<u>3,364,154</u>	<u>26,165,822</u>
Total Noncurrent Assets	<u>16,067,052</u>	<u>18,979,096</u>	<u>20,281</u>	<u>3,802,004</u>	<u>38,868,433</u>
Total assets	<u>\$ 17,124,593</u>	<u>\$ 19,697,834</u>	<u>\$ 470,413</u>	<u>\$ 3,949,302</u>	<u>\$ 41,242,142</u>
LIABILITIES					
Current Liabilities					
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	324,938	52,631	185,944	16,707	580,220
Due to other funds	141,673	568,110	355,874	60,911	1,126,568
Accrued interest payable	8,345	71,790	-	2,137	82,272
Water meter deposits - refundable (restricted)	623,073	-	-	-	623,073
Long-term debt - due within one year	325,210	1,217,490	-	67,727	1,610,427
Total current liabilities	<u>1,423,239</u>	<u>1,910,021</u>	<u>541,818</u>	<u>147,482</u>	<u>4,022,560</u>
Noncurrent liabilities					
Long-term debt - due in more than one year	1,183,550	11,817,738	667	854,722	13,856,677
Total noncurrent liabilities	<u>1,183,550</u>	<u>11,817,738</u>	<u>667</u>	<u>854,722</u>	<u>13,856,677</u>
Total Liabilities	<u>2,606,789</u>	<u>13,727,759</u>	<u>542,485</u>	<u>1,002,204</u>	<u>17,879,237</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,936,794	3,599,228	20,281	2,470,789	15,027,092
Restricted for Debt Service	1,047,428	708,413	-	-	1,755,841
Restricted for Capital Projects	3,782,774	-	-	408,766	4,191,540
Unrestricted	750,808	1,662,434	(92,353)	67,543	2,388,432
Total net assets	<u>\$ 14,517,804</u>	<u>\$ 5,970,075</u>	<u>\$ (72,072)</u>	<u>\$ 2,947,098</u>	<u>\$ 23,362,905</u>

See Notes to Financial Statements.

Governmental
Activities
Internal Service
Funds

\$ 332,489
-
135,898
934,165
1,402,552

-
-

-
1,629,330

1,629,330
1,629,330
\$ 3,031,882

\$ 13,784
460,141
504,672
3,700
-

982,297

220,612
480,200
700,812
1,683,109

928,518
-

420,255
\$ 1,348,773

CITY OF PALESTINE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-Type Activities-Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
OPERATING REVENUES:					
Charges For Services	\$ 2,823,139	\$ 3,367,278	\$ 2,272,629	\$ 346,914	\$ 8,809,960
Other revenues	10,353	-	-	-	10,353
Total Operating Revenues	<u>2,833,492</u>	<u>3,367,278</u>	<u>2,272,629</u>	<u>346,914</u>	<u>8,820,313</u>
OPERATING EXPENSES:					
Cost of sales and services	1,395,879	1,141,002	2,192,373	106,114	4,835,368
Personnel	902,737	527,026	84,989	3,348	1,518,100
Depreciation	530,029	864,187	-	41,192	1,435,408
Total Operating Expenses	<u>2,828,645</u>	<u>2,532,215</u>	<u>2,277,362</u>	<u>150,654</u>	<u>7,788,876</u>
Operating Income (Loss)	<u>4,847</u>	<u>835,063</u>	<u>(4,733)</u>	<u>196,260</u>	<u>1,031,437</u>
NON-OPERATING REVENUES					
(EXPENSES):					
Investment revenue	24,446	30,812	122	680	56,060
Gain on Disposal of Fixed Assets	-	-	-	-	-
Interest expense	(79,815)	(355,872)	-	(40,008)	(475,695)
Total Non-operating Revenues	<u>(55,369)</u>	<u>(325,060)</u>	<u>122</u>	<u>(39,328)</u>	<u>(419,635)</u>
(Expenses)	<u>(55,369)</u>	<u>(325,060)</u>	<u>122</u>	<u>(39,328)</u>	<u>(419,635)</u>
Income (Loss) before					
Contributions and Transfers	<u>(50,522)</u>	<u>510,003</u>	<u>(4,611)</u>	<u>156,932</u>	<u>611,802</u>
Transfer in	4,807,202	199,930	-	2,834,241	7,841,373
Transfers (out)	(147,974)	(310,644)	(126,700)	(44,075)	(629,393)
Capital Contribution	148,334	-	-	-	148,334
Change in net assets	<u>4,757,040</u>	<u>399,289</u>	<u>(131,311)</u>	<u>2,947,098</u>	<u>7,972,116</u>
Net assets, October 1	9,760,764	5,570,786	59,239	-	15,390,789
Net assets, September 30	<u>\$ 14,517,804</u>	<u>\$ 5,970,075</u>	<u>\$ (72,072)</u>	<u>\$ 2,947,098</u>	<u>\$ 23,362,905</u>

See Notes to Financial Statements.

Governmental
Activities
Internal Service
Funds

\$ 2,881,014
-
2,881,014

2,925,542
-
358,973
3,284,515

(403,501)

2,670
3,880
(33,328)
(26,778)

(430,279)

35,000
(35,000)
-
(430,279)

1,779,052
\$ 1,348,773

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2010

	Business-Type Activities-Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 2,864,214	\$ 3,416,673	\$ 2,073,830	\$ 346,914	\$ 8,701,631
Payments to suppliers	(1,132,991)	(1,059,364)	(2,279,351)	(89,407)	(4,561,113)
Payments to employees	(918,829)	(520,700)	(91,053)	(3,348)	(1,533,930)
Internal Activity-payments to other funds	(357,479)	475,245	355,874	(86,387)	387,253
Net Cash Provided by Operating Activities	<u>454,915</u>	<u>2,311,854</u>	<u>59,300</u>	<u>167,772</u>	<u>2,993,841</u>
Cash Flows from Noncapital					
Financing Activities					
Transfer from (to) other funds	709,228	(110,714)	(126,700)	(44,075)	427,739
Net Cash Provided (Used) by Noncapital					
Financing Activities	<u>709,228</u>	<u>(110,714)</u>	<u>(126,700)</u>	<u>(44,075)</u>	<u>427,739</u>
Cash Flows from Capital and Related					
Financing Activities					
Acquisition and construction of capital assets	(1,110,974)	(326,101)	-	(3,405,346)	(4,842,421)
Capital contribution	148,334	-	-	-	148,334
Capital transfers	3,950,000			2,834,241	6,784,241
Principal paid on capital debt	(316,491)	(1,063,592)	-	(16,133)	(1,396,216)
Interest paid on capital debt	(63,195)	(503,522)	-	(34,837)	(601,554)
Proceeds from sale of assets	-	-	-	-	-
Proceeds from capital debt	-	-	-	906,464	906,464
Net Cash Provided (Used) by Capital and					
Related Financing Activities	<u>2,607,674</u>	<u>(1,893,215)</u>	<u>-</u>	<u>284,389</u>	<u>998,848</u>
Cash Flows from Investing Activities					
Interest received	24,446	30,812	122	680	56,060
Net Cash Provided by Investing Activities	<u>24,446</u>	<u>30,812</u>	<u>122</u>	<u>680</u>	<u>56,060</u>
Net Increase in Cash and Cash Equivalents	3,796,263	338,737	(67,278)	408,766	4,476,488
Beginning cash and cash equivalents	2,049,422	5,909,496	100,025	-	8,058,943
Ending Cash and Cash Equivalents	<u>\$ 5,845,685</u>	<u>\$ 6,248,233</u>	<u>\$ 32,747</u>	<u>\$ 408,766</u>	<u>\$ 12,535,431</u>
Ending Cash and Cash Equivalents					
Unrestricted cash and cash equivalents	208,370	223,608	32,747	-	464,725
Restricted cash and cash equivalents	5,637,315	6,024,625	-	408,766	12,070,706
	<u>\$ 5,845,685</u>	<u>\$ 6,248,233</u>	<u>\$ 32,747</u>	<u>\$ 408,766</u>	<u>\$ 12,535,431</u>

See Notes to Financial Statements.

Governmental
Activities
Internal Service
Funds

\$ 2,881,014
(2,846,171)
-
(810,779)
(775,936)

-
-
-

(467,481)
-
(206,911)
(29,628)
3,880
535,526
(164,614)

2,670
2,670

(937,880)
1,256,585
\$ 318,705

318,705
-
\$ 318,705

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2010

	Business-Type Activities-Enterprise Funds				
	Water	Wastewater	Sanitation	Retail	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ 4,847	\$ 835,063	\$ (4,733)	\$ 196,260	\$ 1,031,437
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	530,029	864,187	-	41,192	1,435,408
Changes in Operating Assets and Liabilities:					
(Increase) Decrease in Current Assets:					
Accounts receivable	30,722	49,395	(198,799)	-	(118,682)
Inventory	-	-	-	-	-
Due from other funds	(499,152)	(92,865)	-	(147,298)	(739,315)
Increase (Decrease) in Current Liabilities:					
Due to other funds	141,673	568,110	355,874	60,911	1,126,568
Accounts payable and accrued liabilities	246,796	87,964	(93,042)	16,707	258,425
Net Cash Provided by Operating Activities	<u>\$ 454,915</u>	<u>\$ 2,311,854</u>	<u>\$ 59,300</u>	<u>\$ 167,772</u>	<u>\$ 2,993,841</u>

Governmental
Activities
Internal Service
Funds

\$ (403,501)

358,973

-

48,184

-

(810,779)

31,187

\$ (775,936)

CITY OF PALESTINE, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

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, and sanitation.

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 that 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 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, 2010

B. Financial Statement Presentation

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

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

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

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

C. Government-Wide and Fund Financial Statements

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

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

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, 2010

The proprietary funds used by the City include the following:

Enterprise Funds

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

Additionally, the government reports the following fund types:

Internal Service Funds

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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 accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

accounting period in which they are incurred and become measurable.

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

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

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

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

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

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

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

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

2. Receivables

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, 2010

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

All trade receivables are shown net of an allowance for uncollectibles.

Property taxes

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.

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 reflect costs applicable to future accounting periods (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 assets' lives 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

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

6. Long-Term Obligations

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

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

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary funds, bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

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

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

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Cash and Cash Equivalents

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

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.

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, municipal court security, municipal court technology, cemetery, and the economic development grant funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control, as defined by the charter, in the approved budget is the object and purpose therein named. The City Manager may transfer appropriations within a department without seeking the approval of City Council provided the transfer does not result in a net increase in total appropriations. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

A. Deficit Fund Balance/Net Assets

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

Fund	Deficit
Airport	\$ 150,509
Municipal Court Technolgy	\$ 1,199
Fitness	\$ 787
Home Grant	\$ 5,980
Sanitation	\$ 72,072
Health Insurance	\$ 903,306

B. Expenditures Over Appropriations

The following is a summary of expenditures in excess of appropriations for individual funds:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures In excess of Appropriations</u>
Debt service fund	\$391,975	\$391,574	\$401
Municipal court security fund	\$2,842	\$1,000	\$1,842

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools	\$9,450,446	0.00

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

Credit risk. As of September 30, 2010 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.

More specifically, the U.S. agencies held by the City as of September 30, 2010, 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. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, 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 assets to compute share prices. Accordingly, the fair value of the position in TexPool and TexSTAR are the same as the value of TexPool and TexSTAR shares.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

B. Receivables

The following comprise receivable balances at year end

	General	Nonmajor Governmental	Water	Wastewater	Sanitation
Receivables					
Ad valorem taxes	\$ 601,847	\$ 62,800	\$ -	\$ -	\$ -
Other Taxes	881,488	37,408	-	-	-
Other	305,241	3,531	701	23,535	8,273
Accounts	<u>36,472</u>	<u>-</u>	<u>374,950</u>	<u>406,521</u>	<u>439,132</u>
Gross receivables	1,825,048	103,739	375,651	430,056	447,405
Less: allowance for uncollectibles	<u>244,570</u>	<u>25,520</u>	<u>25,632</u>	<u>27,791</u>	<u>30,020</u>
Net total receivables	<u>\$1,580,478</u>	<u>\$ 78,219</u>	<u>\$ 350,019</u>	<u>\$ 402,265</u>	<u>\$ 417,385</u>

C. Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 1,587,542	\$ 132,786	\$ -	\$ 1,720,328
Construction in progress	-	207,994	(72,624)	135,370
Total capital assets not being depreciated	<u>1,587,542</u>	<u>340,780</u>	<u>(72,624)</u>	<u>1,855,698</u>
Capital assets, being depreciated:				
Buildings	6,834,493	198,882	(936,325)	6,097,050
Improvements	7,337,292	136,596	-	7,473,888
Machinery and equipment	7,353,931	676,879	(33,402)	7,997,408
Infrastructure	<u>30,134,299</u>	<u>-</u>	<u>-</u>	<u>30,134,299</u>
Total capital assets being depreciated	<u>51,660,015</u>	<u>1,012,357</u>	<u>(969,727)</u>	<u>51,702,645</u>
Less accumulated depreciation:				
Buildings	(4,764,458)	(175,005)	792,780	(4,146,683)
Improvements	(5,607,416)	(286,857)	-	(5,894,273)
Machinery and equipment	(4,710,623)	(545,402)	28,152	(5,227,873)
Infrastructure	<u>(16,205,260)</u>	<u>(773,018)</u>	<u>-</u>	<u>(16,978,278)</u>
Total accumulated depreciation	<u>(31,287,757)</u>	<u>(1,780,282)</u>	<u>820,932</u>	<u>(32,247,107)</u>
Total capital assets being depreciated, net	<u>20,372,258</u>	<u>(767,925)</u>	<u>(148,795)</u>	<u>19,455,538</u>
Governmental activities capital assets, net	<u>\$ 21,959,800</u>	<u>\$ (427,145)</u>	<u>\$ (221,419)</u>	<u>\$ 21,311,236</u>

CITY OF PALESTINE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2010

Governmental activities capital assets, net	\$ 21,311,236
Less associated debt	<u>(10,672,812)</u>
Invested in Capital Assets, Net of Related debt	<u>\$ 10,638,424</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 557,916
Public Safety	207,898
Community Development	773,018
Community Service	<u>241,450</u>
Total depreciation expenses - governmental activities	<u>\$ 1,780,282</u>

The PEDC reported land of \$1,009,433 and depreciable capital assets net of accumulated depreciation of \$3,356,622 at year end.

Depreciation was charged to business-type functions as follows:

Business type activities

Capital assets, not being depreciated:

Land	\$ 67,123	\$ 1,733,346	\$ -	\$ 1,800,469
Construction in progress	<u>2,919,952</u>	<u>1,678,467</u>	<u>(777,310)</u>	<u>3,821,109</u>
Total capital assets not being depreciated	<u>2,987,075</u>	<u>3,411,813</u>	<u>(777,310)</u>	<u>5,621,578</u>

Capital assets, being depreciated:

Buildings	8,135,529	1,553,559	-	9,689,088
Machinery and equipment	212,081	25,613	-	237,694
Infrastructure	<u>30,871,555</u>	<u>777,314</u>	<u>-</u>	<u>31,648,869</u>
Total capital assets being depreciated	<u>39,219,165</u>	<u>2,356,486</u>	<u>-</u>	<u>41,575,651</u>

Less accumulated depreciation:

Buildings	(5,665,916)	(282,098)	-	(5,948,014)
Machinery and equipment	(155,961)	(6,637)	-	(162,598)
Infrastructure	<u>(13,774,120)</u>	<u>(1,146,675)</u>	<u>-</u>	<u>(14,920,795)</u>
Total accumulated depreciation	<u>(19,595,997)</u>	<u>(1,435,410)</u>	<u>-</u>	<u>(21,031,407)</u>

Total capital assets being depreciated, net	<u>19,623,168</u>	<u>921,076</u>	<u>-</u>	<u>20,544,244</u>
---	-------------------	----------------	----------	-------------------

Business-type activities capital assets, net	<u>\$ 22,610,243</u>	<u>\$ 4,332,889</u>	<u>\$ (777,310)</u>	<u>\$ 26,165,822</u>
--	----------------------	---------------------	---------------------	----------------------

Less associated debt	(11,770,635)
Deferred charges	<u>631,905</u>

Invested in Capital Assets, Net of Related debt	<u>\$ 15,027,092</u>
--	-----------------------------

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

Depreciation was charged to business-type functions as follows:

Business-type activities:	
Water and wastewater	\$ 1,394,217
Retail	<u>41,193</u>
Total depreciation expenses - business-type activities	<u><u>\$ 1,435,410</u></u>

Business type activities interest expense capitalized during construction for the year is \$104,648.

D. Long-Term Debt

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Government activities:					
Certificate of obligation	\$ 3,455,000	\$ 6,777,000	\$ 260,000	\$ 9,972,000 *	\$ 390,000
Capital leases	372,207	535,517	206,912	700,812 *	220,612
Compensated absences	1,435,023	566,306	528,365	1,472,964	530,000
Net OPEB obligation	<u>82,910</u>	<u>105,421</u>	<u> </u>	<u>188,331</u>	<u>-</u>
Governmental activities					
Long - term liabilities	<u>\$ 5,345,140</u>	<u>\$ 7,984,244</u>	<u>\$ 995,277</u>	<u>\$ 12,334,107</u>	<u>\$ 1,140,612</u>
Long-term debt due in more than a year				<u>\$ 11,193,495</u>	
* Debt associated with capital assets				<u>\$ 10,672,812</u>	
Business type activities					
Revenue Bonds	\$ 15,255,000	\$ 938,582	\$ 1,196,134	\$ 14,997,448 *	\$ 1,472,727
Capital Leases	569,926	-	185,648	384,278 *	99,700
Compensated absences	<u>101,470</u>	<u>21,669</u>	<u>37,761</u>	<u>85,378</u>	<u>38,000</u>
Business-type activities					
Long - term liabilities	<u>\$ 15,926,396</u>	<u>\$ 960,251</u>	<u>\$ 1,419,543</u>	<u>\$ 15,467,104</u>	<u>\$ 1,610,427</u>
Long-term debt due in more than a year				<u>\$ 13,856,677</u>	
* Debt associated with capital assets				<u>\$ 15,381,726</u>	
PEDC					
Notes	<u>\$ 4,641,300</u>	<u>\$ -</u>	<u>\$ 289,981</u>	<u>\$ 4,351,319</u>	<u>\$ 236,294</u>
Long-term debt due in more than a year				<u>\$ 4,115,025</u>	

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

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

Federal Arbitrage

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

The PEDC notes payable have outstanding balances of \$1,413,773 and \$3,007,618 and interest rates of 4.61% and 7.35%, respectively.

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

Year Ending September 30,	Governmental Activities		Business-type Activities		PEDC	
	Certificates of Obligation		Revenue Bonds		Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 390,000	\$ 550,589	\$ 1,472,727	\$ 496,969	\$ 229,542	\$ 283,845
2012	430,000	422,679	1,522,222	450,012	242,885	270,501
2013	450,000	408,017	1,567,134	399,753	258,626	254,760
2014	460,000	392,028	1,342,266	346,771	274,629	238,757
2015	475,000	374,784	1,397,777	297,538	-	-
2016-2020	2,269,000	1,490,766	4,205,322	942,281	-	-
2021-2025	2,552,000	906,990	2,770,000	306,024	-	-
2026-2030	2,946,000	340,271	720,000	38,833	-	-
	<u>\$ 9,972,000</u>	<u>\$ 4,886,124</u>	<u>\$ 14,997,448</u>	<u>\$ 3,278,181</u>	<u>\$ 1,005,682</u>	<u>\$ 1,047,863</u>

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Capital Leases		Capital Leases	
	Principal	Interest	Principal	Interest
2011	\$ 220,612	\$ 24,808	\$ 185,013	\$ 19,571
2012	212,951	20,942	207,620	11,851
2013	115,600	8,243	-	-
2014	95,566	2,277	-	-
2015	56,083	2,540	-	-
	<u>\$ 700,812</u>	<u>\$ 58,810</u>	<u>\$ 392,633</u>	<u>\$ 31,422</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt. Capital assets acquired under current capital lease obligations were a total of \$1,380,879 less accumulated depreciation of \$876,993, net \$503,886. The City sold \$6,777,000 in series 2010 certificate of obligation bonds during the year and lease revenue taxable bond of \$938,582.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

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 \$20,933.

Operating Leases -Lessor

The City has leasing arrangements with nine tenants in City owned mall. The term of lease arrangements range from 12 months to 60 months. Monthly rental amounts range from \$440 to \$15,000.

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

<u>Year</u>	<u>Amount</u>
2011	\$ 440,926
2012	404,514
2013	249,874
2014	107,441
2015	<u>25,827</u>
Total	<u>\$ 1,228,582</u>

Cost of mall, excluding city library in mall, \$3,286,905. Total amount of accumulated depreciation on mall at year end was \$41,193.

E. Interfund Transactions

The compositions of interfund balances as of yearend were as follows:

	Payable							
	Total	General	Nonmajor Governmental	Internal Service	Water	Wastewater	Sanitation	Retail
Receiveable								
General	\$ 456,387	\$ -	\$ 5,000	\$ 451,387	\$ -	\$ -	\$ -	\$ -
Nonmajor governmental	612,190	378,020	-	-	-	173,259	-	60,911
Internal service funds	934,165	350,000	283,786	-	48,808	251,571	-	-
Water	499,154	-	-	-	-	143,280	355,874	-
Wastewater	92,865	-	-	-	92,865	-	-	-
Retail	147,298	-	94,013	53,285	-	-	-	-
Total	<u>\$ 2,742,059</u>	<u>\$ 728,020</u>	<u>\$ 382,799</u>	<u>\$ 504,672</u>	<u>\$ 141,673</u>	<u>\$ 568,110</u>	<u>\$ 355,874</u>	<u>\$ 60,911</u>

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

	Transfers in						
	Total	General	Nonmajor Governmental	Internal Service	Water	Wastewater	Retail
Transfer out:							
General	\$ 1,033,081	\$ -	\$ 33,081	\$ -		\$ -	\$ 1,000,000
Nonmajor governmental	6,703,844	339,327	420		4,329,926	199,930	1,834,241
Internal service funds	35,000			35,000			
Water	147,974	147,974					
Wastewater	310,644	3,400			307,244		
Sanitation	126,700	743			125,957		
Retail	44,075	-	-	-	44,075	-	-
Total transfers	<u>\$ 8,401,318</u>	<u>\$ 491,444</u>	<u>\$ 33,501</u>	<u>\$ 35,000</u>	<u>\$ 4,807,202</u>	<u>\$ 199,930</u>	<u>\$ 2,834,241</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 for various governmental expenditures.

During the year, the water fund and retail fund reported a transfer in representing a capital contribution from of the City's governmental funds in the amount of \$3,965,000 and \$2,834,241 respectively.

F. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditure. Funds restricted by enabling legislation are \$50,718 related to hotel/motel tax and municipal court security.

IV. OTHER INFORMATION

A. Risk Management

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

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

	<u>2010</u>
Beginning claims payable	\$ 318,844
Claims incurred	1,940,400
Claims paid	<u>(1,811,772)</u>
Ending claims payable	<u>\$ 447,472</u>

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

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

B. Contingent Liabilities

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

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

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

C. Pension Plans - Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), 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.

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:

	2010	2009	2008
Employee deposit rate	6.00%	6.00%	6.00%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5 0/20	60/5 0/20	60/5 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating	70% of CPI Repeating

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

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

General Fund
 Airport Fund
 Warehouse Fund

Benefits

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

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2009 valuation is effective for rates beginning January 2010). The annual pension cost and the net pension obligation (asset) are as follows:

	2010	2009	2008	2007
Annual Req. Contrib.(ARC)	\$ 1,117,323	\$ 968,429	\$ 920,255	\$ 865,122
Contributions Made	\$ 1,117,323	\$ 968,429	\$ 920,255	\$ 865,122
NPO at End of Period	\$ -	\$ -	\$ -	\$ -

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

	<u>2010</u>
Acturial Valuation Date	12/31/09
Acturial Valuation of Assets	\$ 14,523,310
Acturial Accrued Liability	\$ 25,546,260
Percentage Funded	56.9%
Unfunded Acturial Accrued Liability (UAAL)	\$ 11,022,950
Annual Coverage Payroll	\$ 7,509,706
UAAL as Percentage of Covered Payroll	147%

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarial Valuation Date	12/31/08	12/31/07	12/31/06
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Unit Credit
Amortization Method	Level % of Payroll 29 Years - Closed	Level % of Payroll 30 Years - Closed	Level % of Payroll 25 Years - Open
Remaining Amortization Period	period	period	period
Asset Valuation Method	Amortized cost	Amortized cost	Amortized cost
Investment Rate of Return	7.5%	7.5%	7.0%
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%	N/A

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 \$24,805 to the OPEB plan during the year.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

Actuarial Information

The contribution requirement has been actuarially determined. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. As of the actuarial valuation date of October 1, 2008, the actuarial value of plan assets is zero dollars, the actuarial accrued liability is \$1,028,210, the total underfunded actuarial liability is \$1,028,210, 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 \$105,421. The components of the ARC consist of the employer's normal cost and the amortization of the underfunded actuarial accrued liabilities. The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level % of payroll
Remaining Amortization Period	30 Years - Closed period
Asset Valuation Method	Not applicable
Investment Rate of Return	Not applicable
Projected Salary Increases	3.0%
Healthcare Cost Trend Rate (Initial/Ultimate)	4.25%

Three-Year Contribution Information

	2010	2009
Annual Req. Contrib. (ARC)	\$ 105,421	\$ 100,731
Contributions Made	\$ 24,805	\$ 17,821
Beginning OPEB Obligation	\$ 82,910	
Ending OPEB Obligation	<u>\$ 163,526</u>	<u>\$ 82,910</u>

The City implemented prospectively GASB Statement No. 45 in the prior year. Therefore, the above illustration does not reflect similar information for the two preceding years.

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

The funded status as of October 1, 2008, the most recent valuation date, is as follows:

	2010
Actuarial Valuation Date	10/01/08
Actuarial Valuation of Assets	\$ -
Actuarial Accrued Liability	\$ 1,028,210
Percentage Funded	0.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,028,210
Annual Coverage Payroll	\$ 7,509,706
UAAL as Percentage of Covered Payroll	14%

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

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, 2010, 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 retiree term life insurance during employees' entire careers.

The City's contribution rate to the TMRS SDBF, for the retiree portion, for the year ended September 30, 2010 is shown below.

	2010	2009	2008	2007
Annual Req. Contrib. (ARC)	0.10%	0.10%	0.10%	0.09%
Actual Contributions Made	0.10%	0.10%	0.10%	0.09%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%	100.00%

CITY OF PALESTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2010

E. Commitments

The City has entered into several construction contracts for construction of water tower, sewer, library and other building improvements for total in excess of \$10 million.

F. Extraordinary Item

During the year, City's library roof collapsed during storm. Library building is currently not in use. The City has library for sale. Insurance proceeds from collapsed roof amounted to \$159,802; net basis in library building was \$143,545 resulting in gain of \$16,257.

G. Subsequent Event

Subsequent were evaluated through April 19, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PALESTINE, TEXAS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
Revenue:				
Taxes				
Property Taxes	\$ 5,527,000	\$ 5,527,000	\$ 5,340,769	\$ (186,231)
Business Franchise Taxes	1,235,000	1,235,000	1,227,490	(7,510)
City Sales Taxes	5,536,000	5,536,000	4,760,522	(775,478)
Licenses, Permits and Fees	186,500	186,500	182,925	(3,575)
Intergovernmental Revenues	341,710	341,710	279,903	(61,807)
Charges For Services	63,500	6,000	25,728	19,728
Fines and Forfeitures	496,000	496,000	453,210	(42,790)
Investment	147,026	145,000	33,480	(111,520)
Other revenues	118,500	176,000	278,122	102,122
Total revenues	13,651,236	13,649,210	12,582,149	(1,067,061)
Expenditures:				
General Government	1,963,906	2,070,710	1,613,752	456,958
Public Safety	6,813,662	7,168,662	6,909,060	259,602
Community Services	4,495,002	3,769,998 *	3,995,224	(225,226)
Community Development	1,011,731	1,310,805	769,939	540,866
Total expenditures	14,284,301	14,320,175	13,287,975	1,032,200
Excess (deficiency) of revenues over (under) expenditures	(633,065)	(670,965)	(705,826)	(34,861)
Other financing sources (uses):				
Operating transfers in	492,401	494,427	491,444	(2,983)
Operating transfers out	(25,000)	(25,000)	(1,033,081)	(1,008,081)
Total other financing sources (uses)	467,401	469,427	(541,637)	(1,011,064)
Net change in fund balance	(165,664)	(201,538)	(1,247,463)	\$ (1,045,925)
Fund balances, October 1			2,950,450	
Fund balances, September 30			\$ 1,702,987	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistently 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, 2010

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	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04
Actuarial Value of Assets	\$14,523,310	\$13,418,753	\$14,185,105	\$13,876,432	\$13,753,562	\$ 12,779,168
Actuarial Accrued Liability	\$25,546,260	\$24,106,626	\$23,495,097	\$19,465,019	\$19,048,800	\$ 17,875,933
Percentage Funded	56.9%	55.7%	60.4%	71.3%	72.2%	71.5%
Unfunded Actuarial Accrued Liability	\$11,022,950	\$10,687,873	\$9,309,992	\$5,588,587	\$5,295,238	\$5,096,765
Annual Covered Payroll	\$7,509,706	\$7,116,470	\$5,954,932	\$5,720,728	\$5,756,686	\$5,629,662
Unfunded Actuarial Accrued Liability (UAAL) % of Covered Payroll	147.0%	150.2%	156.3%	97.7%	92.0%	90.5%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	1,186,240	968,429	920,255	865,122	893,021	736,026
Contributions Made	1,186,240	968,429	920,255	865,122	893,021	736,026
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

COMBINING STATEMENTS AND SCHEDULES

CITY OF PALESTINE, TEXAS

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2010

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 08-09 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

PD JAG Grant 2009 and 2010

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, 2010

	Special Revenue Funds				
	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 52,258	\$ 14,816	\$ 5,631	\$ 25,965	\$ 20,295
Restricted cash and cash equivalents	-	-	-	-	-
Receivables	-	37,408	3,532	-	-
Due from other funds	259,663	-	-	117,141	-
Note Receivables	84,375	-	-	-	-
Total Assets	\$ 396,296	\$ 52,224	\$ 9,163	\$ 143,106	\$ 20,295
Liabilities:					
Accounts Payable	\$ -	\$ 21,801	\$ 22,720	\$ -	\$ -
Deferred Revenues	-	-	-	-	-
Due to other funds	-	-	136,952	-	-
Total Liabilities	-	21,801	159,672	-	-
Fund Balances:					
Reserved					
Reserve for capital projects	-	-	-	-	-
Reserve - debt service	-	-	-	-	-
Reserve - notes receivables	84,375	-	-	-	-
Unreserved	311,921	30,423	(150,509)	143,106	20,295
Total Fund Balances	396,296	30,423	(150,509)	143,106	20,295
Total Liabilities and Fund Balances	\$ 396,296	\$ 52,224	\$ 9,163	\$ 143,106	\$ 20,295

<u>Municipal Court Technology</u>	<u>Gates Pac Hug Grant</u>	<u>Carnegie Library Memorial</u>	<u>Tobacco Grant 08-09</u>	<u>Equitable Sharing Federal Forfeitures</u>	<u>Police Confiscated Money</u>	<u>TXDot Depot Enhancement Project</u>	<u>Loop 256 Tree Project</u>
\$ -	\$ 1,718	\$ 12,932	\$ 2,700	\$ 31,438	\$ 3,058	\$ -	\$ 1,031
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	36,979	35,938	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,718</u>	<u>\$ 12,932</u>	<u>\$ 2,700</u>	<u>\$ 31,438</u>	<u>\$ 40,037</u>	<u>\$ 35,938</u>	<u>\$ 1,031</u>
\$ -	\$ 485	\$ -	\$ -	\$ -	\$ 16,486	\$ -	\$ -
-	-	-	-	-	-	-	-
1,199	-	-	-	-	-	-	-
<u>1,199</u>	<u>485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,486</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(1,199)	1,233	12,932	2,700	31,438	23,551	35,938	1,031
<u>(1,199)</u>	<u>1,233</u>	<u>12,932</u>	<u>2,700</u>	<u>31,438</u>	<u>23,551</u>	<u>35,938</u>	<u>1,031</u>
<u>\$ -</u>	<u>\$ 1,718</u>	<u>\$ 12,932</u>	<u>\$ 2,700</u>	<u>\$ 31,438</u>	<u>\$ 40,037</u>	<u>\$ 35,938</u>	<u>\$ 1,031</u>

CITY OF PALESTINE, TEXAS

COMBINING BALANCE SHEET (Page 2 of 2)

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	Special Revenue Funds				
	Community Forest	Fitness Grant	Search and Recovery Grant	Fire Prevention	PD JAG Grant 2009
ASSETS					
Current Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 2,269	\$ 8,065	\$ 12
Restricted cash and cash equivalents	-	-	-	-	-
Receivables	-	-	-	-	-
Due from other funds	82,646	-	-	-	-
Note Receivables	-	-	-	-	-
Total Assets	\$ 82,646	\$ -	\$ 2,269	\$ 8,065	\$ 12
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ 698	\$ -
Deferred Revenues	-	-	-	-	-
Due to other funds	-	787	-	-	-
Total Liabilities	-	787	-	698	-
Fund Balances:					
Reserved					
Reserve for capital projects	-	-	-	-	-
Reserve - debt service	-	-	-	-	-
Reserve - notes receivables	-	-	-	-	-
Unreserved	82,646	(787)	2,269	7,367	12
Total Fund Balances	82,646	(787)	2,269	7,367	12
Total Liabilities and Fund Balances	\$ 82,646	\$ -	\$ 2,269	\$ 8,065	\$ 12

PD JAG Grant 2010	Generator Grant	Home Program	Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
				2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	
\$ 316	\$ -	\$ 610	\$ -	\$ -	\$ -	\$ -	\$ 75,280	\$ 258,394
-	-	-	16,409	209,304	537,424	404,455	-	1,167,592
-	-	-	37,279	-	-	-	-	78,219
-	-	-	73,714	-	-	-	6,109	612,190
-	-	-	-	-	-	-	-	84,375
<u>\$ 316</u>	<u>\$ -</u>	<u>\$ 610</u>	<u>\$127,402</u>	<u>\$ 209,304</u>	<u>\$ 537,424</u>	<u>\$ 404,455</u>	<u>\$ 81,389</u>	<u>\$ 2,200,770</u>
\$ -	\$ -	\$ 1,590	\$ -	\$ 636	\$ -	\$ -	\$ -	\$ 64,416
-	-	-	34,421	-	-	-	-	34,421
-	-	5,000	-	-	10,404	228,457	-	382,799
-	-	6,590	34,421	636	10,404	228,457	-	481,636
-	-	-	-	208,668	527,020	175,998	81,389	993,075
-	-	-	92,981	-	-	-	-	92,981
-	-	-	-	-	-	-	-	84,375
316	-	(5,980)	-	-	-	-	-	548,703
<u>316</u>	<u>-</u>	<u>(5,980)</u>	<u>92,981</u>	<u>208,668</u>	<u>527,020</u>	<u>175,998</u>	<u>81,389</u>	<u>1,719,134</u>
<u>\$ 316</u>	<u>\$ -</u>	<u>\$ 610</u>	<u>\$127,402</u>	<u>\$ 209,304</u>	<u>\$ 537,424</u>	<u>\$ 404,455</u>	<u>\$ 81,389</u>	<u>\$ 2,200,770</u>

CITY OF PALESTINE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Page 1 of 2)
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Special Revenue Funds				
	Economic Development Grant	Tourism & Civic Center	Airport	Cemetery	Municipal Court Security
Revenues:					
Taxes	\$ -	\$ 357,810	\$ -	\$ -	\$ -
Intergovernmental	-	-	11,367	-	-
Charges for services	-	-	237,594	9,500	-
Fines and forfeitures	-	-	-	-	7,575
Rentals	-	-	22,080	-	-
Investment revenue	3,019	37	33	264	17
Other revenue	-	-	-	-	-
Total revenues	<u>3,019</u>	<u>357,847</u>	<u>271,074</u>	<u>9,764</u>	<u>7,592</u>
Expenditures:					
Current					
Public Safety	-	-	-	-	2,842
Community Services	-	63,740	388,229	8,089	-
Community Development	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-
Total expenditures	<u>-</u>	<u>63,740</u>	<u>388,229</u>	<u>8,089</u>	<u>2,842</u>
Excess (deficiency) of revenues over (under) expenditures	3,019	294,107	(117,155)	1,675	4,750
Other financing sources (uses):					
Transfers in	-	-	25,000	-	-
Transfers out	-	(334,427)	-	(600)	-
Issuance of Long term debt	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(334,427)</u>	<u>25,000</u>	<u>(600)</u>	<u>-</u>
Net change in fund balance	3,019	(40,320)	(92,155)	1,075	4,750
Fund balances, October 1	<u>393,277</u>	<u>70,743</u>	<u>(58,354)</u>	<u>142,031</u>	<u>15,545</u>
Fund balances, September 30	<u>\$ 396,296</u>	<u>\$ 30,423</u>	<u>\$ (150,509)</u>	<u>\$ 143,106</u>	<u>\$ 20,295</u>

<u>Municipal Court Technology</u>	<u>Gates Pac Hug Grant</u>	<u>Carnegie Library Memorial</u>	<u>Tobacco Grant 08-09</u>	<u>Equitable Sharing Federal Forfeitures</u>	<u>Police Confiscated Money</u>	<u>TXDot Depot Enhancement Project</u>	<u>Loop 256 Tree Project</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	3,000	-	-	-	-
-	-	-	-	-	-	-	-
10,100	-	-	-	215	-	-	-
-	-	-	-	-	-	-	-
-	1	14	-	149	57	32	1
-	-	4,213	-	-	-	-	-
<u>10,100</u>	<u>1</u>	<u>4,227</u>	<u>3,000</u>	<u>364</u>	<u>57</u>	<u>32</u>	<u>1</u>
13,263	-	-	300	14,000	-	-	-
-	-	7,080	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>13,263</u>	<u>-</u>	<u>7,080</u>	<u>300</u>	<u>14,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
(3,163)	1	(2,853)	2,700	(13,636)	57	32	1
-	-	-	-	-	420	-	-
(4,299)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>(4,299)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420</u>	<u>-</u>	<u>-</u>
(7,462)	1	(2,853)	2,700	(13,636)	477	32	1
6,263	1,232	15,785	-	45,074	23,074	35,906	1,030
<u>\$ (1,199)</u>	<u>\$ 1,233</u>	<u>\$ 12,932</u>	<u>\$ 2,700</u>	<u>\$ 31,438</u>	<u>\$ 23,551</u>	<u>\$ 35,938</u>	<u>\$ 1,031</u>

CITY OF PALESTINE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Page 2 of 2)
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Special Revenue Funds				
	Community Forest	Fitness Grant	Search and Recovery Grant	Fire Prevention	PD JAG Grant 2009
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	3,020	-	63,913
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Rentals	-	-	-	-	-
Investment revenue	71	-	2	-	12
Miscellaneous revenue	-	-	-	-	-
Total revenues	<u>71</u>	<u>-</u>	<u>3,022</u>	<u>-</u>	<u>63,925</u>
Expenditures:					
Current					
Public Safety	-	-	750	714	63,913
Community Services	-	412	-	-	-
Community Development	20,000	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-
Total expenditures	<u>20,000</u>	<u>412</u>	<u>750</u>	<u>714</u>	<u>63,913</u>
Excess (deficiency) of revenues over (under) expenditures	(19,929)	(412)	2,272	(714)	12
Other financing sources (uses):					
Transfers in	-	-	-	8,081	-
Transfers out	-	-	-	-	-
Issuance of Long term debt	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,081</u>	<u>-</u>
Net change in fund balance	(19,929)	(412)	2,272	7,367	12
Fund balances, October 1	<u>102,575</u>	<u>(375)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
Fund balances, September 30	<u>\$ 82,646</u>	<u>\$ (787)</u>	<u>\$ 2,269</u>	<u>\$ 7,367</u>	<u>\$ 12</u>

PD JAG Grant 2010	Generator Grant	Home Program	Debt Service	Capital Projects Funds				Total Nonmajor Governmental Funds
				2006 Series Improvements	Library Project	Water Capital Projects	Capital Projects	
\$ -	\$ -	\$ -	\$ 390,992	\$ -	\$ -	\$ -	\$ -	\$ 748,802
40,000	60,000	-	-	-	-	-	-	181,300
-	-	-	-	-	-	-	-	247,094
-	-	-	-	-	-	-	-	17,890
-	-	-	-	-	-	-	-	22,080
-	-	-	206	375	722	2,893	334	8,239
-	-	-	-	-	-	-	1,275	5,488
<u>40,000</u>	<u>60,000</u>	<u>-</u>	<u>391,198</u>	<u>375</u>	<u>722</u>	<u>2,893</u>	<u>1,609</u>	<u>1,230,893</u>
39,684	-	-	-	-	-	-	-	135,466
-	60,000	-	-	-	-	-	-	527,550
-	-	5,980	-	22,836	460,536	-	80,788	590,140
-	-	-	260,000	-	-	-	-	260,000
-	-	-	131,975	-	-	-	-	131,975
<u>39,684</u>	<u>60,000</u>	<u>5,980</u>	<u>391,975</u>	<u>22,836</u>	<u>460,536</u>	<u>-</u>	<u>80,788</u>	<u>1,645,131</u>
316	-	(5,980)	(777)	(22,461)	(459,814)	2,893	(79,179)	(414,238)
-	-	-	-	-	-	-	-	33,501
-	-	-	-	-	(1,790,166)	(609,352)	(3,965,000)	(6,703,844)
-	-	-	-	-	2,777,000	-	4,000,000	6,777,000
-	-	-	-	-	986,834	(609,352)	35,000	106,657
316	-	(5,980)	(777)	(22,461)	527,020	(606,459)	(44,179)	(307,581)
-	-	-	93,758	231,129	-	782,457	125,568	2,026,715
<u>\$ 316</u>	<u>\$ -</u>	<u>\$ (5,980)</u>	<u>\$ 92,981</u>	<u>\$ 208,668</u>	<u>\$ 527,020</u>	<u>\$ 175,998</u>	<u>\$ 81,389</u>	<u>\$ 1,719,134</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, 2010

	ECONOMIC DEVELOPMENT GRANT			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Interest	\$ 8,000	\$ 8,000	\$ 3,019	\$ (4,981)
Total revenues	8,000	8,000	3,019	(4,981)
Expenditures:				
Community Development	400	400	-	400
Total expenditures	400	400	-	400
Excess (deficiency) of revenues over (under) expenditures	7,600	7,600	3,019	(4,581)
Net change in fund balance	\$ 7,600	\$ 7,600	3,019	\$ (4,581)
Fund balances, October 1			393,277	
Fund balances, September 30			\$ 396,296	

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, 2010

	TOURISM AND CIVIC CENTER			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 375,000	\$ 375,000	\$ 357,810	\$ (17,190)
Interest	1,000	1,000	37	(963)
Total revenues	376,000	376,000	357,847	(18,153)
Expenditures:				
Community Services	362,427	362,427	63,740	298,687
Total expenditures	362,427	362,427	63,740	298,687
Excess (deficiency) of revenues over (under) expenditures	13,573	13,573	294,107	280,534
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(334,427)	(334,427)	(334,427)	-
Total other financing sources (uses)	(334,427)	(334,427)	(334,427)	-
Net change in fund balance	\$ (320,854)	\$ (320,854)	(40,320)	\$ 280,534
Fund balances, October 1			70,743	
Fund balances, September 30			\$ 30,423	

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, 2010

	AIRPORT			Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Intergovernmental	\$ 8,000	\$ 8,000	\$ 11,367	\$ 3,367
Rentals	26,000	26,000	22,080	(3,920)
Charges for services	396,400	396,400	237,594	(158,806)
Interest	500	500	33	(467)
Total revenues	430,900	430,900	271,074	(159,826)
Expenditures:				
Community Services	455,696	470,696	388,229	82,467
Total expenditures	455,696	470,696	388,229	82,467
Excess (deficiency) of revenues over (under) expenditures	(24,796)	(39,796)	(117,155)	(77,359)
Other financing sources (uses):				
Transfers in	25,000	25,000	25,000	-
Total other financing sources (uses)	25,000	25,000	25,000	-
Net change in fund balance	\$ 204	\$ (14,796)	(92,155)	\$ (77,359)
Fund balances, October 1			(58,354)	
Fund balances, September 30			\$ (150,509)	

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, 2010

CEMETERY				Variance with Final Budget Positive (negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Charges for services	\$ 3,800	\$ 3,800	\$ 9,500	\$ 5,700
Interest	1,500	1,500	264	(1,236)
Total revenues	5,300	5,300	9,764	4,464
Expenditures:				
Community Services	3,800	58,800	8,089	50,711
Total expenditures	3,800	58,800	8,089	50,711
Excess (deficiency) of revenues over (under) expenditures	1,500	(53,500)	1,675	55,175
Other financing sources (uses):				
Transfers out	-	-	(600)	(600)
Total other financing sources (uses)	-	-	(600)	(600)
Net change in fund balance	\$ 1,500	\$ (53,500)	1,075	\$ 54,575
Fund balances, October 1			142,031	
Fund balances, September 30			\$ 143,106	

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, 2010

MUNICIPAL COURT TECHNOLOGY				Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Fines	\$ 10,700	\$ 10,700	\$ 10,100	\$ (600)
Total revenues	10,700	10,700	10,100	(600)
Expenditures:				
Public Safety	10,700	15,200	13,263	1,937
Total expenditures	10,700	15,200	13,263	1,937
Excess (deficiency) of revenues over (under) expenditures	-	(4,500)	(3,163)	1,337
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(4,299)	(4,299)
Total other financing sources (uses)	-	-	(4,299)	(4,299)
Net change in fund balance	\$ -	\$ (4,500)	(7,462)	\$ (2,962)
Fund balances, October 1			6,263	
Fund balances, September 30			\$ (1,199)	

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, 2010

	MUNICIPAL COURT SECURITY			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Fines	\$ 8,000	\$ 8,000	\$ 7,575	\$ (425)
Investment revenue	-	-	17	17
Total revenues	8,000	8,000	7,592	(408)
Expenditures:				
Public Safety	1,000	1,000	2,842	(1,842)
Total expenditures	1,000	1,000	2,842	(1,842)
Excess (deficiency) of revenues over (under) expenditures	7,000	7,000	4,750	(2,250)
Net change in fund balance	\$ 7,000	\$ 7,000	4,750	\$ (2,250)
Fund balances, October 1			15,545	
Fund balances, September 30			\$ 20,295	

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, 2010

	DEBT			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenue:				
Taxes	\$ 403,474	\$ 403,474	\$ 390,992	\$ (12,482)
Interest	1,500	1,500	206	(1,294)
Total revenues	<u>404,974</u>	<u>404,974</u>	<u>391,198</u>	<u>(13,776)</u>
Debt Service:				
Principal	260,000	260,000	260,000	-
Interest and fiscal charges	131,574	131,574	131,975	(401)
Total expenditures	<u>391,574</u>	<u>391,574</u>	<u>391,975</u>	<u>(401)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,400</u>	<u>13,400</u>	<u>(777)</u>	<u>(14,177)</u>
Net change in fund balance	<u>\$ 13,400</u>	<u>\$ 13,400</u>	(777)	<u>\$ (14,177)</u>
Fund balances, October 1			<u>93,758</u>	
Fund balances, September 30			<u>\$ 92,981</u>	

CITY OF PALESTINE, TEXAS
INTERNAL SERVICE FUNDS
September 30, 2010

Central Warehouse Fund

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

Health Insurance Fund

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

Workers' Compensation Fund

This internal service fund is used to account for the costs associated with workers' compensation of employees.

Equipment Replacement Fund

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

Unemployment Fund

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

CITY OF PALESTINE, TEXAS

COMBINING STATEMENT OF NET ASSETS

INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2010

ASSETS	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
Current Assets:				
Cash and cash equivalents	\$ -	\$ 5,970	\$ 244,681	\$ 81,838
Due from other funds	-		-	545,328
Inventory	<u>135,898</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>135,898</u>	<u>5,970</u>	<u>244,681</u>	<u>627,166</u>
Noncurrent Assets:				
Capital Assets (net)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,629,330</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,629,330</u>
Total assets	<u>\$ 135,898</u>	<u>\$ 5,970</u>	<u>\$ 244,681</u>	<u>\$ 2,256,496</u>
LIABILITIES				
Current Liabilities				
Bank overdraft	\$ -	\$ 13,784	\$ -	\$ -
Accounts payable	5,495	447,472	-	7,174
Accrued Interest payable	-	-	-	3,700
Due to other funds	53,572	451,100	-	-
Long-term debt - due more than a year	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,612</u>
Total current liabilities	<u>59,067</u>	<u>912,356</u>	<u>-</u>	<u>231,486</u>
Noncurrent liabilities				
Long-term debt - due more than a year	<u>-</u>	<u>-</u>	<u>-</u>	<u>480,200</u>
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>480,200</u>
Total Liabilities	59,067	912,356	-	711,686
NET ASSETS				
Invested in capital assets, net of related debt	-	-	-	928,518
Unrestricted	<u>76,831</u>	<u>(906,386)</u>	<u>244,681</u>	<u>616,292</u>
Total net assets	<u>76,831</u>	<u>(906,386)</u>	<u>244,681</u>	<u>1,544,810</u>
Total Liabilities and Net Assets	<u>\$ 135,898</u>	<u>\$ 5,970</u>	<u>\$ 244,681</u>	<u>\$ 2,256,496</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ -	\$ 332,489
388,837	934,165
-	135,898
<u>388,837</u>	<u>1,402,552</u>
-	1,629,330
-	1,629,330
<u>\$ 388,837</u>	<u>\$3,031,882</u>
\$ -	\$ 13,784
-	460,141
-	3,700
-	504,672
-	220,612
<u>-</u>	<u>1,202,909</u>
-	480,200
-	480,200
-	1,683,109
-	928,518
388,837	420,255
<u>388,837</u>	<u>1,348,773</u>
<u>\$ 388,837</u>	<u>\$3,031,882</u>

CITY OF PALESTINE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>CENTRAL WAREHOUSE</u>	<u>HEALTH INSURANCE</u>	<u>WORKERS' COMPENSATION</u>	<u>EQUIPMENT REPLACEMENT</u>
OPERATING REVENUES:				
Charges for Services and Sales	\$ 386,976	\$ 2,087,904	\$ 53,721	\$ 344,329
Total Operating Revenues	<u>386,976</u>	<u>2,087,904</u>	<u>53,721</u>	<u>344,329</u>
OPERATING EXPENSES:				
Cost of Services	432,340	2,281,204	110,722	42,978
Depreciation	-	-	-	358,973
Total Operating Expenses	<u>432,340</u>	<u>2,281,204</u>	<u>110,722</u>	<u>401,951</u>
Operating Income (loss)	<u>(45,364)</u>	<u>(193,300)</u>	<u>(57,001)</u>	<u>(57,622)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest revenue	-	267	819	1,030
Gain on Disposal of Fixed Assets	-	-	-	3,880
Interest expense	-	-	-	(33,328)
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>267</u>	<u>819</u>	<u>(28,418)</u>
Net Income (Loss)	<u>(45,364)</u>	<u>(193,033)</u>	<u>(56,182)</u>	<u>(86,040)</u>
Transfer in	-	35,000	-	-
Transfer out	-	-	(35,000)	-
Change in net assets	<u>(45,364)</u>	<u>(158,033)</u>	<u>(91,182)</u>	<u>(86,040)</u>
Net assets, October 1	<u>122,195</u>	<u>(748,353)</u>	<u>335,863</u>	<u>1,630,850</u>
Net assets, September 30	<u>\$ 76,831</u>	<u>\$ (906,386)</u>	<u>\$ 244,681</u>	<u>\$ 1,544,810</u>

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 8,084	\$ 2,881,014
<u>8,084</u>	<u>2,881,014</u>
58,298	2,925,542
-	358,973
<u>58,298</u>	<u>3,284,515</u>
<u>(50,214)</u>	<u>(403,501)</u>
554	2,670
-	3,880
<u>-</u>	<u>(33,328)</u>
<u>554</u>	<u>(26,778)</u>
<u>(49,660)</u>	<u>(430,279)</u>
-	35,000
<u>-</u>	<u>(35,000)</u>
<u>(49,660)</u>	<u>(430,279)</u>
438,497	1,779,052
<u>\$ 388,837</u>	<u>\$ 1,348,773</u>

CITY OF PALESTINE, TEXAS

COMBINING STATEMENT OF CASH FLOWS

ALL INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	CENTRAL WAREHOUSE	HEALTH INSURANCE	WORKERS' COMPENSATION	EQUIPMENT REPLACEMENT
Cash Flows from Operating Activities:				
Cash Received from Interfund services provided	\$ 386,976	\$ 2,087,904	\$ 53,721	\$ 344,329
Cash Payments to Other Suppliers for Goods and Services	(440,262)	(2,201,085)	(110,722)	(35,804)
Internal Activity-payments to other funds	53,286	70,100	-	(545,328)
Net Cash Provided (Used) by Operating Activities	-	(43,081)	(57,001)	(236,803)
Cash Flows from Non-capital Financing Activities:				
Transfer from (to) other funds	-	35,000	(35,000)	-
Net Cash Provided (Used) by Non-capital Financing Activities	-	35,000	(35,000)	-
Cash Flows from Capital and Related Financing Activities:				
Principal paid on capital debt	-	-	-	(206,911)
Interest paid on capital debt	-	-	-	(29,628)
Proceeds from capital debt	-	-	-	535,526
Acquisition and Construction of Capital Assets	-	-	-	(467,481)
Proceeds from sale of assets	-	-	-	3,880
Net Cash Provided (Used) for Capital and Related Financing Activities	-	-	-	(164,614)
Cash Flows from Investing Activities:				
Interest received	-	267	819	1,030
Net Cash Provided (Used) for Investing Activities	-	267	819	1,030
Net Increase (Decrease) in Cash and Cash Equivalents	-	(7,814)	(91,182)	(400,387)
Cash and Cash Equivalents at Beginning of Year	-	-	335,863	482,225
Cash and Cash Equivalents at End of Year	-	(7,814)	244,681	81,838
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	(45,364)	(193,300)	(57,001)	(57,622)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	-	-	-	358,973
Change in Assets and Liabilities				
Decrease (Increase) in Inventories	48,184	-	-	-
Increase (Decrease) in Accounts Payable	(56,106)	80,119	-	7,174
Increase (Decrease) in interfund payable	53,286	70,100	-	(545,328)
Total Adjustments	45,364	150,219	-	(179,181)
Net Cash Provided (Used) by Operating Activities	\$ -	\$ (43,081)	\$ (57,001)	\$ (236,803)

<u>UNEMPLOYMENT</u>	<u>TOTAL</u>
\$ 8,084	\$ 2,881,014
(58,298)	(2,846,171)
<u>(388,837)</u>	<u>(810,779)</u>
<u>(439,051)</u>	<u>(775,936)</u>
-	-
-	-
-	(206,911)
-	(29,628)
-	535,526
-	(467,481)
-	3,880
<u>-</u>	<u>(164,614)</u>
554	2,670
<u>554</u>	<u>2,670</u>
(438,497)	(937,880)
<u>438,497</u>	<u>1,256,585</u>
<u>-</u>	<u>318,705</u>
(50,214)	(403,501)
	358,973
-	48,184
-	31,187
<u>(388,837)</u>	<u>(810,779)</u>
<u>(388,837)</u>	<u>(372,435)</u>
<u>\$ (439,051)</u>	<u>\$ (775,936)</u>