

CITY OF PALACIOS, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Directory of Principal Officials.....	5
FINANCIAL SECTION	
Independent Auditor’s Report.....	7
Management’s Discussion and Analysis.....	9
<u>Basic Financial Statements</u>	
Government-Wide Financial Statements	
Statement of Net Position.....	18
Statement of Activities.....	20
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	22
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds.....	24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	25
Statement of Net Position - Proprietary Funds.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds.....	27
Statement of Cash Flows - Proprietary Funds.....	28
Statement of Fiduciary Net Position - Fiduciary Funds.....	30
Notes to Financial Statements.....	31
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (GAAP Basis) and Actual - General Fund.....	58
Historical Pension Information.....	59
Notes to Required Supplementary Information.....	61
<u>Combining and Individual Fund Statements and Schedules</u>	
<i>Governmental Funds</i>	
Combining Statements	
Combining Balance Sheet - Nonmajor Governmental Funds.....	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds.....	67
<i>Governmental Funds</i>	
Individual Statements and Schedules	
General Fund.....	70
Balance Sheet.....	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual.....	72

FINANCIAL SECTION – (CONTINUED)

Combining and Individual Fund Statements and Schedules – (continued)

Enterprise Funds..... 78

 Water and Sewer Fund

 Statement of Net Position 79

 Statement of Revenues, Expenses, and Changes in Fund

 Net Position 81

 Airport Fund

 Statement of Net Position 82

 Statement of Revenues, Expenses, and Changes in Fund

 Net Position 83

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 85

Independent Auditor’s Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-13386

Schedule of Expenditures of Federal and State Awards88

Notes to Schedule of Expenditures of Federal and State Awards 89

Schedule of Findings and Questioned Costs90

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INTRODUCTORY SECTION

City of Palacios, Texas

DIRECTORY OF PRINCIPAL OFFICIALS

September 30, 2015

City Officials

John Sardelich

Johnny Tran

Judy Chavez

Mary Crocker

Glen Smith

Andy Erdelt

Troy Lewis

Key Staff

David Kocurek

Randall B. Strong

Linh Chau

David Miles

Jackie Jones

Elective Position

Mayor

Mayor Pro-Tem

Council Member

Council Member

Council Member

Council Member

Council Member

Appointive Position

City Manager

City Attorney

Municipal Court Judge

City Secretary

Chief of Police

City Treasurer

FINANCIAL SECTION

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

(979) 543-3251
(979) 543-6668 Fax

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Palacios, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palacios, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palacios, Texas, as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of the City of Palacios, Texas' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Palacios, Texas' internal control over financial reporting and compliance.

Baker, Stogner, and Associates

El Campo, Texas

January 29, 2016

CITY OF PALACIOS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015

As management of the City of Palacios, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$17,351,204 (*net position*). Of this amount, \$561,904 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$952,761, an increase of \$94,825 from the prior year. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$794,819, or 35% of total General Fund expenditures.
- The City's total debt of business-type activities decreased by \$385,892 or 8% during the fiscal year, ending with a balance of \$4,982,615 of which \$332,980 is due within one year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 9 to 15

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 17 to 20

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 21 to 29

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 31 to 51

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

Statement of Net Position

The statement of net position presents information on all of the City's assets and liabilities, deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, health and welfare, and special services. The business-type activities of the City include water/wastewater and airport services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds or proprietary funds.

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 fiscal year. Such information may be useful in evaluating a government'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 maintained eleven individual governmental funds during the 2014-2015 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered a major fund. Data from the other twelve governmental funds are combined into a single, aggregated presentation.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Governmental Funds - (Continued)

The City adopts an annual appropriated budget for its General Fund. A Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual has been provided to demonstrate compliance with the appropriated budget.

Proprietary Funds

The City maintains two different 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/wastewater utility service and for its airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City's internal service fund is the Equipment Fund, which is used to account for the costs to maintain the City's fleet.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The proprietary fund financial statements provide information for the water/wastewater utility service and the airport operation; which are considered to be major funds of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs/operations. The accounting used for fiduciary funds is similar to proprietary funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$17,351,204 at the close of the fiscal year 2015.

By far, the largest portion of the City's net position (96%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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 capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Palacios, Texas

Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,588,194	\$ 1,412,231	\$ 696,396	\$ 606,853	\$ 2,284,590	\$ 2,019,084
Capital assets (net)	1,997,178	2,011,505	19,445,881	20,126,119	21,443,059	22,137,624
Other noncurrent assets	-	-	39,952	45,730	39,952	45,730
Total assets	<u>3,585,372</u>	<u>3,423,736</u>	<u>20,182,229</u>	<u>20,778,702</u>	<u>23,767,601</u>	<u>24,202,438</u>
Deferred Outflow of Resources	159,293	-	-	-	212,210	-
Current liabilities	253,346	223,062	547,668	547,669	801,014	770,731
Noncurrent liabilities	1,024,549	41,236	4,649,634	4,663,356	5,674,183	4,704,592
Total liabilities	<u>1,277,895</u>	<u>264,298</u>	<u>5,197,302</u>	<u>5,211,025</u>	<u>6,475,197</u>	<u>5,475,323</u>
Deferred Inflow of Resources	115,156	-	38,254	-	153,410	-
Net Position						
Invested in capital assets, net of related debt	1,955,942	2,039,800	14,833,358	15,174,221	16,789,300	17,214,021
Unrestricted	395,672	1,119,638	166,232	393,456	561,904	1,513,094
Total net position	<u>\$ 2,351,614</u>	<u>\$ 3,159,438</u>	<u>\$ 14,999,590</u>	<u>\$ 15,567,677</u>	<u>\$ 17,351,204</u>	<u>\$ 18,727,115</u>

The balance of unrestricted net position, \$561,904, may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for the primary government as a whole.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental activities increased the City's net position by \$201,362. Business-type activities decreased the City's net position by \$232,840.

City of Palacios, Texas

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues:						
Charges for services	\$ 132,634	\$ 113,607	\$ 1,758,385	\$ 1,814,637	\$ 1,891,019	\$ 1,928,244
Operating grants and contributions	1,276	24,121	-	-	1,276	24,121
Capital grants and contributions	626,354	1,561,468	63,516	1,278,332	689,870	2,839,800
General revenues:						
Property taxes	1,370,380	1,332,295	-	-	1,370,380	1,332,295
Sales taxes	467,888	513,058	-	-	467,888	513,058
Franchise taxes	155,123	143,170	-	-	155,123	143,170
Other taxes	33,851	43,917	-	-	33,851	43,917
Unrestricted investment earnings	1,353	1,831	872	1,115	2,225	2,946
Miscellaneous	249,436	226,148	41,495	172,306	290,931	398,454
Total revenues	<u>3,038,295</u>	<u>3,959,615</u>	<u>1,864,268</u>	<u>3,266,390</u>	<u>4,902,563</u>	<u>7,226,005</u>
EXPENSES						
General government	692,372	676,701	-	-	692,372	676,701
Public safety	1,288,444	1,287,724	-	-	1,288,444	1,287,724
Public works	925,600	1,925,618	-	-	925,600	1,925,618
Special services	101,176	98,182	-	-	101,176	98,182
Health and welfare	36,353	66,793	-	-	36,353	66,793
Interest on long-term debt	2,232	3,938	-	-	2,232	3,938
Water and sewer	-	-	1,758,639	1,801,226	1,758,639	1,801,226
Airport	-	-	129,225	113,759	129,225	113,759
Total expenses	<u>3,046,177</u>	<u>4,058,956</u>	<u>1,887,864</u>	<u>1,914,985</u>	<u>4,934,041</u>	<u>5,973,941</u>
Change in net position before transfers	(7,882)	(99,341)	(23,596)	1,351,405	(31,478)	1,252,064
Transfers	209,244	226,436	(209,244)	(226,436)	-	-
Change in net position	201,362	127,095	(232,840)	1,124,969	(31,478)	1,252,064
Net position - beginning	<u>2,150,252</u>	<u>3,032,343</u>	<u>15,232,430</u>	<u>14,442,708</u>	<u>17,382,682</u>	<u>17,475,051</u>
As restated						
Net position - ending	<u>\$2,351,614</u>	<u>\$3,159,438</u>	<u>\$14,999,590</u>	<u>\$ 15,567,677</u>	<u>\$ 17,351,204</u>	<u>\$ 18,727,115</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$952,761, an increase of \$94,825 from the prior year.

Approximately 83% of this total amount, \$794,819 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$157,934 or 17% is non-spendable or restricted.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$794,819. Unreserved fund balance represents 35% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$95,996 during the current fiscal year. The increase was primarily due to the increase in tax revenue.

Proprietary Funds

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

Unrestricted net position of the Water and Sewer Fund at the end of the current fiscal year amounted to \$162,358. Unrestricted net position of the Airport Fund amounted to \$3,874 at the end of the current fiscal year, which is a decrease of \$227,224 from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$21,443,059 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment, water and sewer system, and land structured facilities. The total decrease in the City's investment in capital assets was 16%.

**City of Palacios, Texas
Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 357,286	\$ 357,286	\$ 8,129	\$ 8,129	\$ 365,415	\$ 365,415
Construction in progress	197,695	113,271	-	1,278,332	197,695	1,391,603
Buildings and improvements	579,752	563,855	227,273	316,429	807,025	880,284
Machinery and equipment	267,337	325,662	393,094	449,680	660,431	775,342
Land structured facilities	595,108	651,431	1,267,956	1,323,850	1,863,064	1,975,281
Water and sewer system	-	-	17,549,429	16,749,700	17,549,429	16,749,700
Total	\$ 1,997,178	\$ 2,011,505	\$ 19,445,881	\$ 20,126,120	\$ 21,443,059	\$ 22,137,625

Additional information on the City's capital assets can be found in Note 5 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION - (Continued)

Long-Term Debt

During the 2011 fiscal year, the City issued \$3,580,000 in Certificate of Obligation Bonds in order to fund water and sewer improvements. The amount outstanding at year end is \$3,220,000. The City also retired the final \$43,100 of the tax notes issued in 2008 for the purchase of the new City Hall. The 2011 bonds mature in 2031, and the tax notes mature in 2015. In the 2010 fiscal year, the City was deeded certain water and sewer improvements that were constructed by a developer. The City has agreed to reimburse the developer certain costs that were incurred in the construction of the improvements. The net amount owed to the developer at year end was \$975,831. The City retired \$88,234 debt in the form of an eight year capital lease. Additional information on the City's long-term debt can be found in Note 9.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City's budget for the 2015-2016 fiscal year.

The total sales tax payments received by the City from the State Comptroller in fiscal year 2015 totaled \$467,888. This amount is an decrease of \$45,170 or 36% over the previous year.

The certified assessed taxable property valuations for the 2015 tax roll total \$177,335,096 with a tax rate of \$0.84 per \$100 valuation. \$0.84 was allocated for maintenance and operations. The projected total property tax due is \$1,460,000 for the 2015 tax year. The certified assessed taxable property valuations were more than the 2014 values.

Of the \$1,460,000 of projected 2015 property tax due, and using a 95% collection rate, \$77,162 is projected to be collected from the newly annexed Beachside subdivision. Of the \$77,162 projected collection, \$50,000 would be payable to the developer of the Beachside subdivision as per the City's development agreement.

The development agreement provides that in exchange for the developer's financing and extending of the off site water and sewer lines to the development, the City agreed to reimburse 75% of collected tax revenue and tap fees generated from the development site until the total reimbursement amount equals the extension costs. The amount of \$1,405,101 was agreed upon by the developer and the City for the extension of the water and sewer lines. As of the end of the fiscal year, \$429,270 had been reimbursed leaving a balance of \$975,831.

It is important to note that only taxes and fees actually collected will be subject to reimbursement and that funds reimbursed will only be generated from the development site.

The revenue needed to fund this debt is to be derived solely through increases in the water and sewer rates under a revised rate structure that encourages water conservation.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, 311 Henderson Avenue, Palacios, Texas 77465.

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BASIC FINANCIAL STATEMENTS

CITY OF PALACIOS, TEXAS
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Palacios Economic Development Corporation
ASSETS				
Current assets				
Cash and cash equivalents	\$ 843,948	\$ 379,775	\$ 1,223,723	\$ 383,952
Receivables (net)	468,661	311,701	780,362	-
Internal balances	59,373	(59,373)	-	-
Due from other governments	208,278	-	208,278	27,827
Inventory	7,934	64,293	72,227	-
Total current assets	1,588,194	696,396	2,284,590	411,779
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	554,980	8,128	563,108	-
Buildings, improvements, and equipment (net)	1,442,198	19,437,752	20,879,950	-
Deferred expenses (net)	-	39,952	39,952	-
Total noncurrent assets	1,997,178	19,485,832	21,483,010	-
Total assets	3,585,372	20,182,228	23,767,600	411,779
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (net)	159,293	52,917	212,210	5,374
Total Deferred Outflow of Resources	159,293	52,917	212,210	5,374

CITY OF PALACIOS, TEXAS

STATEMENT OF NET POSITION (continued)

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Palacios Economic Development Corporation
LIABILITIES				
Current liabilities				
Accounts payable	\$ 155,973	\$ 71,516	\$ 227,489	\$ 224
Accrued expenses	27,529	9,209	36,738	851
Accrued interest payable	-	15,475	15,475	-
Due to other governments	18,224	-	18,224	-
Customer meter deposits	-	118,488	118,488	-
Accrued compensated absences	23,878	9,746	33,624	1,939
Payable to developer	-	50,000	50,000	-
Current portion of long-term obligations	27,742	273,234	300,976	-
Total current liabilities	<u>253,346</u>	<u>547,668</u>	<u>801,014</u>	<u>3,014</u>
Noncurrent liabilities				
Net Pension Liability	1,011,055	335,868	1,346,923	34,111
Noncurrent portion of long-term obligations	13,494	4,313,766	4,327,260	-
Total noncurrent liabilities	<u>1,024,549</u>	<u>4,649,634</u>	<u>5,674,183</u>	<u>34,111</u>
Total liabilities	<u>1,277,895</u>	<u>5,197,302</u>	<u>6,475,197</u>	<u>37,125</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (net)	115,156	38,254	153,410	3,885
Total Deferred Inflows of Resources	<u>115,156</u>	<u>38,254</u>	<u>153,410</u>	<u>3,885</u>
NET POSITION				
Invested in capital assets, net of related debt	1,955,942	14,833,358	16,789,300	-
Unrestricted	<u>395,672</u>	<u>166,232</u>	<u>561,904</u>	<u>376,143</u>
Total net position	<u>\$ 2,351,614</u>	<u>\$ 14,999,590</u>	<u>\$ 17,351,204</u>	<u>\$ 376,143</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2015

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 692,372	\$ 32,597	\$ -	\$ -
Public safety	1,288,444	100,037	-	-
Public works	925,600	-	1,276	626,354
Special services	101,176	-	-	-
Health and welfare	36,353	-	-	-
Interest on long-term debt	2,232	-	-	-
Total governmental activities	<u>3,046,177</u>	<u>132,634</u>	<u>1,276</u>	<u>626,354</u>
Business-type activities				
Water and sewer	1,758,639	1,718,047	-	-
Airport	129,225	40,338	-	-
Total business-type activities	<u>1,887,864</u>	<u>1,758,385</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,934,041</u>	<u>\$ 1,891,019</u>	<u>\$ 1,276</u>	<u>\$ 626,354</u>
Component Unit				
Palacios Economic Development Corporation	<u>\$ 157,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

- Taxes:
 - Property taxes, levied for general purposes
 - Property taxes, levied for debt service
 - Sales taxes
 - Franchise taxes
 - Other taxes and fees
- Unrestricted investment earnings
- Miscellaneous
- Transfers
- Capital contributions

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			Component
Primary Government			Unit
Governmental Activities	Business- type Activities	Total	Palacios Economic Development Corporation
(659,775)	\$ -	\$ (659,775)	\$ -
(1,188,407)	-	(1,188,407)	-
(297,970)	-	(297,970)	-
(101,176)	-	(101,176)	-
(36,353)	-	(36,353)	-
(2,232)	-	(2,232)	-
<u>(2,285,913)</u>	<u>-</u>	<u>(2,285,913)</u>	<u>-</u>
-	(40,592)	(40,592)	-
-	(88,887)	(88,887)	-
-	(129,479)	(129,479)	-
<u>(2,285,913)</u>	<u>(129,479)</u>	<u>(2,415,392)</u>	<u>-</u>
-	-	-	(157,064)
1,317,708	-	1,317,708	-
52,672	-	52,672	-
467,888	-	467,888	155,963
155,123	-	155,123	-
33,851	-	33,851	-
1,353	872	2,225	811
249,436	41,495	290,931	12,993
209,244	(209,244)	-	-
-	63,516	63,516	-
<u>2,487,275</u>	<u>(103,361)</u>	<u>2,383,914</u>	<u>169,767</u>
201,362	(232,840)	(31,478)	12,703
<u>2,150,252</u>	<u>15,232,430</u>	<u>17,382,682</u>	<u>363,440</u>
<u>\$ 2,351,614</u>	<u>\$ 14,999,590</u>	<u>\$ 17,351,204</u>	<u>\$ 376,143</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS*BALANCE SHEET**GOVERNMENTAL FUNDS**September 30, 2015*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 669,789	\$ 167,813	\$ 837,602
Receivables (net)	456,703	11,958	468,661
Due from other governments	88,241	120,037	208,278
Due from other funds	78,000	238	78,238
Inventory	7,934	-	7,934
Total assets	<u>1,300,667</u>	<u>300,046</u>	<u>1,600,713</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	24,532	122,624	147,156
Accrued expenditures	27,529	-	27,529
Due to other funds	238	18,628	18,866
Due to other governments	13,422	4,802	18,224
Total liabilities	<u>65,721</u>	<u>146,054</u>	<u>211,775</u>
Deferred Inflows of Resources			
Unearned Revenue	432,193	3,984	436,177
Total Deferred Inflow of Resources	<u>432,193</u>	<u>3,984</u>	<u>436,177</u>
Fund balances			
Nonspendable	7,934	-	7,934
Restricted	-	150,008	150,008
Unassigned	794,819	-	794,819
Total fund balances	<u>802,753</u>	<u>150,008</u>	<u>952,761</u>
Total liabilities and fund balances	<u>\$ 1,300,667</u>	<u>\$ 300,046</u>	<u>\$ 1,600,713</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

*RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES*

September 30, 2015

Total governmental fund balances		\$ 952,761
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
The Internal Service Fund is used by the City to account for the costs of equipment owned by the City. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net position.		103,331
Property taxes, fines and weedy lot receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		436,177
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$6,375,167 and the accumulated depreciation is \$4,730,592.		1,850,142
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Net Pension Liability	\$ (1,011,055)	
Compensated absences	<u>(23,878)</u>	(1,034,933)
The net deferred outflows and inflows making up Net Pension Liability are not recorded in the funds		<u>44,136</u>
Net position of governmental activities		<u>\$ 2,351,614</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS*

For the year ended September 30, 2015

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 2,000,745	\$ 81,204	\$ 2,081,949
Licenses and permits	32,597	-	32,597
Intergovernmental	1,276	626,354	627,630
Charges for services	-	-	-
Fines and forfeitures	94,744	5,293	100,037
Investment income	969	377	1,346
Miscellaneous	198,324	-	198,324
Total revenues	<u>2,328,655</u>	<u>713,228</u>	<u>3,041,883</u>
EXPENDITURES			
Current			
General government	655,134	17,541	672,675
Public safety	1,199,284	-	1,199,284
Public works	264,738	643,526	908,264
Special services	101,176	-	101,176
Health and welfare	22,571	-	22,571
Debt service			
Principal retirement	-	43,100	43,100
Interest and fiscal charges	-	2,232	2,232
Total expenditures	<u>2,242,903</u>	<u>706,399</u>	<u>2,949,302</u>
Excess (deficiency) of revenues over expenditures	85,752	6,829	92,581
OTHER FINANCING SOURCES (USES)			
Transfers in	158,600	-	158,600
Transfers out	<u>(148,356)</u>	<u>(8,000)</u>	<u>(156,356)</u>
Total other financing sources (uses)	<u>10,244</u>	<u>(8,000)</u>	<u>2,244</u>
Net change in fund balances	95,996	(1,171)	94,825
Fund balances (as restated), at beginning of year	<u>706,757</u>	<u>151,178</u>	<u>857,935</u>
Fund balances at end of year	<u>\$ 802,753</u>	<u>\$ 150,007</u>	<u>\$ 952,760</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2015*

Total net change in fund balances - governmental funds	\$ 94,825
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
The Internal Service Fund is used by the City to account for the costs of equipment owned by the City. The net loss of the Internal Service Fund is reported with governmental activities.	9,074
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2012-2013 capital outlays is to increase net position.	129,424
Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(119,175)
Current year proceeds and payments on long-term debt are other financing sources and expenditures in the fund financial statements, but they serve to increase or reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:	
Note principal retirement	43,100
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.	(3,595)
Some items 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. These activities consist of:	
Decrease in pension expense	\$ 42,268
Decrease in compensated absences	5,441
	42,268
	5,441
Change in net position of governmental activities	<u>\$ 201,362</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2015

	Business-type Activities			Governmental Activities- Internal Service Fund
	Water and Sewer	Airport	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 379,775	\$ -	\$ 379,775	\$ 6,346
Receivables (net)	310,476	1,225	311,701	-
Due from other funds	-	-	-	-
Inventory	<u>48,517</u>	<u>15,776</u>	<u>64,293</u>	<u>-</u>
Total current assets	<u>738,768</u>	<u>17,001</u>	<u>755,769</u>	<u>6,346</u>
Noncurrent assets				
Land and other assets not being depreciated	8,129	-	8,129	-
Buildings, improvements, and equipment (net)	18,182,194	1,255,558	19,437,752	147,036
Prepaid Insurance	<u>39,952</u>	<u>-</u>	<u>39,952</u>	<u>-</u>
Total noncurrent assets	<u>18,230,275</u>	<u>1,255,558</u>	<u>19,485,833</u>	<u>147,036</u>
Total assets	<u>18,969,043</u>	<u>1,272,559</u>	<u>20,241,602</u>	<u>153,382</u>
DEFERRED OUTFLOWS OF RESOURCES				
Contributions after 12/31/13 through 9/30/14	<u>52,917</u>	<u>-</u>	<u>52,917</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>52,917</u>	<u>-</u>	<u>52,917</u>	<u>-</u>
LIABILITIES				
Current liabilities				
Accounts payable	71,039	477	71,516	8,815
Accrued expenses	9,209	-	9,209	-
Due to other funds	46,723	12,650	59,373	-
Accrued interest payable	15,475	-	15,475	-
Customer meter deposits	118,488	-	118,488	-
Accrued compensated absences	9,746	-	9,746	-
Current portion of notes	88,234	-	88,234	27,742
Current portion of payable to developer	50,000	-	50,000	-
Current portion of general obligation bonds	<u>185,000</u>	<u>-</u>	<u>185,000</u>	<u>-</u>
Total current liabilities	<u>593,914</u>	<u>13,127</u>	<u>607,041</u>	<u>36,557</u>
Noncurrent liabilities				
Net Pension Liability	335,868	-	335,868	-
Notes payable	352,935	-	352,935	13,494
General obligation bonds	-	-	-	-
Certificates of obligation	3,035,000	-	3,035,000	-
Payable to developer	<u>925,831</u>	<u>-</u>	<u>925,831</u>	<u>-</u>
Total noncurrent liabilities	<u>4,649,634</u>	<u>-</u>	<u>4,649,634</u>	<u>13,494</u>
Total liabilities	<u>5,243,548</u>	<u>13,127</u>	<u>5,256,675</u>	<u>50,051</u>
DEFERRED INFLOWS OF INFLOWS				
Actual expense vs assumptions	<u>38,254</u>	<u>-</u>	<u>38,254</u>	<u>-</u>
	<u>38,254</u>	<u>-</u>	<u>38,254</u>	<u>-</u>
NET POSITION				
Invested in capital assets, net of related debt	13,577,800	1,255,558	14,833,358	105,799
Unrestricted net position	<u>162,358</u>	<u>3,874</u>	<u>166,232</u>	<u>(2,468)</u>
Total net position	<u>\$ 13,740,158</u>	<u>\$ 1,259,432</u>	<u>\$ 14,999,590</u>	<u>\$ 103,331</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 For the year ended September 30, 2015

	Business-type Activities			Governmental Activities- Internal Service Fund
	Water and Sewer	Airport	Total	
OPERATING REVENUES				
Charges for services	\$ 1,718,047	\$ 28,236	\$ 1,746,283	\$ -
Rents	-	12,102	12,102	-
Total operating revenues	<u>1,718,047</u>	<u>40,338</u>	<u>1,758,385</u>	<u>-</u>
OPERATING EXPENSES				
Water system	579,379	-	579,379	-
Sanitary sewer system	303,903	-	303,903	-
Solid waste	-	-	-	-
Airport expenses	-	83,076	83,076	-
Miscellaneous	26,163	-	26,163	-
Equipment expenses	-	-	-	140,435
Depreciation and amortization	715,679	46,149	761,828	57,498
Total operating expenses	<u>1,625,124</u>	<u>129,225</u>	<u>1,754,349</u>	<u>197,933</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	92,923	(88,887)	4,036	(197,933)
NONOPERATING REVENUES (EXPENSES)				
Investment income	861	11	872	7
Connection fees	8,750	-	8,750	-
Miscellaneous income	2,047	6,961	9,008	-
Nonoperating lease income	-	23,737	23,737	-
Interest and fiscal charges	(133,515)	-	(133,515)	-
Total nonoperating revenues (expenses)	<u>(121,857)</u>	<u>30,709</u>	<u>(91,148)</u>	<u>7</u>
Income (loss) before contributions and transfers	(28,934)	(58,178)	(87,112)	(197,926)
Contributions and transfers				
Capital contributions	63,516	-	63,516	-
Transfers in	76,356	-	76,356	207,000
Transfers out	(285,600)	-	(285,600)	-
Total contributions and transfers	<u>(145,728)</u>	<u>-</u>	<u>(145,728)</u>	<u>207,000</u>
Change in net position	(174,662)	(58,178)	(232,840)	9,074
Total net position at beginning of year	<u>13,914,820</u>	<u>1,317,610</u>	<u>15,232,430</u>	<u>94,257</u>
Total net position at end of year	<u>\$ 13,740,158</u>	<u>\$ 1,259,432</u>	<u>\$ 14,999,590</u>	<u>\$ 103,331</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the year ended September 30, 2015

	Business-type Activities			Governmental Activities- Internal Service Fund
	Water and Sewer	Airport	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,696,228	\$ 39,838	\$ 1,736,066	\$ -
Cash paid to suppliers for goods and services	(571,060)	(77,220)	(648,280)	(145,384)
Cash paid to employees for services	(331,112)	-	(331,112)	-
Net cash provided (used) by operating activities	<u>794,056</u>	<u>(37,382)</u>	<u>756,674</u>	<u>(145,384)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	(209,244)	-	(209,244)	207,000
Borrowings (repayments) to other funds	277	6,673	6,950	-
Connection fees	8,750	-	8,750	-
Miscellaneous income (expense)	2,047	30,698	32,745	-
Increase (decrease) in customer meter deposits	3,144	-	3,144	-
Net cash provided (used) by noncapital financing activities	<u>(195,026)</u>	<u>37,371</u>	<u>(157,655)</u>	<u>207,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(18,074)	-	(18,074)	(32,921)
Change in prepaid interest	5,778	-	5,778	-
Proceeds from issuance of debt	-	-	-	-
Principal paid on long-term debt	(344,590)	-	(344,590)	(26,432)
Interest paid	(134,078)	-	(134,078)	-
Net cash provided (used) by capital and related financing activities	<u>(490,964)</u>	<u>-</u>	<u>(490,964)</u>	<u>(59,353)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	861	11	872	7
Net cash provided (used) by investing activities	<u>861</u>	<u>11</u>	<u>872</u>	<u>7</u>
Net increase (decrease) in cash and cash equivalents	108,927	-	108,927	2,270
Cash and cash equivalents at beginning of year	270,848	-	270,848	4,076
Cash and cash equivalents at end of year	<u>\$ 379,775</u>	<u>\$ -</u>	<u>\$ 379,775</u>	<u>\$ 6,346</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2015

	Business-type Activities			Governmental Activities- Internal Service Fund
	Water and Sewer	Airport	Total	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 92,923	\$ (88,887)	\$ 4,036	\$ (197,933)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	715,679	46,149	761,828	57,498
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	(21,819)	(500)	(22,319)	-
(Increase) decrease in inventory	28,340	6,413	34,753	-
Increase (decrease) in accounts payable	(6,633)	(557)	(7,190)	(4,949)
Increase (decrease) in accrued expenses	1,208	-	1,208	-
Increase (decrease) in accrued pension	(14,042)			
Increase (decrease) in compensated absences	(1,600)	-	(1,600)	-
Total adjustments	701,133	51,505	752,638	52,549
Net cash provided (used) by operating activities	\$ 794,056	\$ (37,382)	\$ 756,674	\$ (145,384)
Noncash capital and related financing activities				
Infrastructure improvements contributed by other funds	\$ 63,516			

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

September 30, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>53,792</u>
Total assets	\$ <u><u>53,792</u></u>
LIABILITIES	
Liabilities	
Due to others	\$ <u>53,792</u>
Total liabilities	\$ <u><u>53,792</u></u>

The accompanying notes are an integral part of this statement.

INDEX

<u>Note</u>		<u>Page</u>
1	Summary of Significant Accounting Policies.....	32
2	Stewardship, Compliance, and Accountability.....	39
3	Deposits and Investments.....	39
4	Receivables	40
5	Capital Assets	42
6	Employees' Retirement Plan.....	43
7	Supplemental Death Benefit Plan.....	48
8	Risk Management.....	48
9	Long-Term Debt.....	48
10	Interfund Receivables, Payables, and Transfers.....	51
11	Commitments and Contingencies.....	51
12	Fund Balances	52
13.	Restatement of net position.....	52
14	Texas Emergency Services Retirement System	52

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Palacios, Texas (the "City") was incorporated in 1909. The voters of the City passed a referendum during the May 3, 2003, election to form a Charter Commission and to elect a board of commissioners to frame the new charter. The Commission presented the Charter to the City Council and was passed by the voters during the November 2, 2004, election. The passing of the Charter allowed the City to change from a Type A General Law City to a Home Rule City with a Council-Manager form of government. Other changes allowed the Mayor's position to vote on all items and required a sixth Council position to be created which was filled in the November 2, 2004, election. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor presides at meetings of the City Council and is allowed to vote on all matters. The City provides the following services: public safety to include police, fire, and emergency medical services, highways and streets, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administration.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. The component unit discussed in this note is included in the City's financial statements because of the significance of its financial relationship with the City.

B. Component Unit

The component unit is reported in a separate column to emphasize that it is legally separate from the City. The component unit column is made of the following:

The Palacios Economic Development Corporation (the "Corporation") was created for the purpose of benefiting and accomplishing public purposes of the City by promoting, encouraging, and enhancing the creation of jobs in the City. This is to be achieved through assistance in the retention of existing businesses and industries and the attraction of new businesses and industries and aid in their development and growth. Each Director of the Corporation is appointed to office by the City Council. Once appointed, they may be removed from office at will by a majority vote of the Council members. Under guidelines established by GASB, this fact makes the Corporation financially accountable to the City. Because other necessary conditions are also met, the Corporation has been included as a discretely presented component unit of the City in the accompanying financial statements. The Corporation uses the same fiscal year as the City and is presented as a governmental fund type. No other organizations met the necessary criteria to be considered component units of the City for the year ending September 30, 2015.

The component unit is discretely presented in the financial statements. Complete financial statements of the component unit can be obtained from Palacios City Hall, P.O. Box 845, Palacios, Texas 77465.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all non-fiduciary activities of the City and its component unit. 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. Likewise, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that 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 be financed or recovered primarily through user charges, or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Water and Sewer Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant and water distribution system.

The Airport Fund, an enterprise fund, accounts for the operation of the City's Airport.

Additionally, the City reports the following fund types:

The Special Revenue Funds account and report proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

The Internal Service Fund is used to account for the City's equipment related expenses. Such operations are operated in a manner similar to private business enterprises, where the intent of the City is that the costs of providing equipment services to the various City departments on a continuing basis will be financed or recovered primarily through user charges to the departments.

The Agency Fund accounts for the collection of a deposit from a real estate developer. The funds will be used to pay for certain infrastructure improvements related to the development. The City has no ownership on these assets and are therefore excluded from the government-wide statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and the Internal Service Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between line items within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.
5. Formal budgetary integration was employed as a management control device during the year. The Debt Service Fund is not budgeted because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
6. All appropriations lapse at year-end. The City does not employ the use of encumbrances in its budgetary accounting.

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Deposits and Investments – (Continued)

underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

As of September 30, 2015, the City has adopted a formal investment policy.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. 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 and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 10% of the outstanding property taxes and the allowance on the penalties and interest is equal to 75% of the assessed amount.

H. Inventory and Prepaid Items

Inventory is valued at the lower of cost (first-in, first-out) or market. Estimated cost is used when actual cost figures are not available. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide financial statements.

I. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on capital assets of business-type activities when acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred during the period of construction until completion of the project with interest earned on invested proceeds over the same period.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Capital Assets – (Continued)

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	40
Water and wastewater distribution system	40
Machinery and equipment	2-20
Office equipment and fixtures	3-15

J. Compensated Absences

The City allows ten days sick leave per year for each full-time employee and further allows each employee to accumulate up to ninety days of sick leave. Upon termination, there is no provision to pay the employee for accumulated sick days.

All full-time employees are given ten days vacation each year up to ten years of service and fifteen days per year thereafter. Employees may carryover a maximum of 80 hours of unused vacation time to the next year. Employees are paid for unused vacation time upon termination.

City employees can also earn compensatory time off for overtime hours worked. Employees have the option of either being paid for overtime work or taking additional time off at the rate of one and one-half hours in compensatory time for each hour of overtime worked. Most City personnel may accrue a maximum of 120 hours of compensatory time. Earned but unused compensatory time is paid to employees upon termination.

All compensated absences pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

K. Long-Term Obligations

In the government-wide financial statements, and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Losses or gains on refunding are capitalized and amortized over the shorter life of the new issuance or the life on existing debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Deferred Outflows/Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred amount calculated in the actuarial pension study required by Government Accounting Standards Board (GASB) Statement No. 68 "Accounting and Financial Reporting for pensions" (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position can also report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, *unavailable revenue*, is reported only in the government funds balance sheet. The government funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

M. Pensions

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

N. Fund Equity

Fund balances of Government Funds classified as restricted are balances with constraints placed on the use of resources by creditors, groups, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through a resolution. Once the resolution is passed, the commitment remains in place until another resolution is passed to remove or revise the commitment.

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the City Manager or his/her designee to assign fund balance. Unlike commitments, assignments generally on exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Compliance

There were two departments that expenditures exceeded the amount appropriated during the fiscal year 2014-2015.

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Recycle Center	\$ 16,600	\$ 16,883	\$ (283)
Special Items	98,405	101,176	(2,771)

These expenditures were funded by an available fund balance in the General Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance. Pledged securities at Compass Bank for the year ended 9/30/15 were \$2,145,000 in collateral value and \$2,219,929 in market value.

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 460,873	44

The pool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The pool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. TexPool's weighted average maturity cannot exceed 60 days.

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

The investment pool operates in full compliance with the Public Funds Investment Act. TexPool is rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

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 that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 110% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk. Pledged securities at Compass Bank for the year ended 9/30/15 were \$2,145,000 in collateral value and \$2,219,929 in market value.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments are invested in TexPool and it has no custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at September 30, 2015, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Airport Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:					
Accounts	\$ 48,215	\$ 475,379	\$ 1,350	\$ -	\$ 524,944
Ad valorem taxes	573,383	-	-	3,984	577,367
Franchise taxes	26,007	-	-	-	26,007
Fines	78,702	-	-	-	78,702
Other	-	943	-	7,974	8,917
Total gross receivables	726,307	476,322	1,350	11,958	1,215,937
Less: allowances	<u>269,604</u>	<u>165,846</u>	<u>125</u>	<u>-</u>	<u>435,575</u>
Total net receivables	<u>\$ 456,703</u>	<u>\$ 310,476</u>	<u>\$ 1,225</u>	<u>\$ 11,958</u>	<u>\$ 780,362</u>

NOTE 4: RECEIVABLES (Continued)

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 351,994	\$ -	\$ 351,994
Fines	78,702	-	78,702
Weedy lot mowing	1,497	-	1,497
Debt Service Fund			
Ad valorem taxes	<u>3,984</u>	<u>-</u>	<u>3,984</u>
	<u>\$ 436,177</u>	<u>\$ -</u>	<u>\$ 436,177</u>

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. The City's property taxes are billed and collected by the Palacios Independent School District and are due and payable on January 31st. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on the property on February 1st of the subsequent calendar year.

For the current year, the City levied property taxes of \$0.85787 per \$100 of assessed valuation. \$0.82612 was allocated for maintenance and operations, and \$0.03175 was allocated for interest and sinking (debt service). The resulting adjusted total tax levy was \$1,359,073 on the total adjusted taxable valuation of \$166,796,064 for the 2014 tax roll.

NOTE 5: CAPITAL ASSETS

The City's capital assets activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 357,286	\$ -	\$ -	\$ 357,286
Construction in progress	<u>113,271</u>	<u>84,424</u>	<u>-</u>	<u>197,695</u>
Total capital assets not being depreciated	<u>470,557</u>	<u>84,424</u>	<u>-</u>	<u>554,981</u>
Capital assets, being depreciated				
Machinery and equipment	2,175,981	42,923	-	2,218,904
Land structured facilities	4,718,044	-	-	4,718,044
Buildings	<u>884,829</u>	<u>35,000</u>	<u>-</u>	<u>919,829</u>
Total capital assets being depreciated	<u>7,778,854</u>	<u>77,923</u>	<u>-</u>	<u>7,856,777</u>
Less accumulated depreciation for				
Machinery and equipment	1,850,319	101,248	-	1,951,567
Land structured facilities	4,066,613	56,323	-	4,122,936
Buildings	<u>320,974</u>	<u>19,102</u>	<u>-</u>	<u>340,076</u>
Total accumulated depreciation	<u>6,237,906</u>	<u>176,673</u>	<u>-</u>	<u>6,414,579</u>
Total capital assets being depreciated, net	<u>1,540,948</u>	<u>(98,750)</u>	<u>-</u>	<u>1,442,198</u>
Governmental activities capital assets, net	<u>\$ 2,011,505</u>	<u>\$ (14,326)</u>	<u>\$ -</u>	<u>\$ 1,997,178</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 8,129	\$ -	\$ -	\$ 8,129
Construction in progress	<u>1,278,332</u>	<u>63,516</u>	<u>1,341,848</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,286,461</u>	<u>63,516</u>	<u>1,341,848</u>	<u>8,129</u>
Capital assets, being depreciated				
Machinery and equipment	1,073,579	-	-	1,073,579
Buildings and improvements	3,471,118	-	-	3,471,118
Water and sewer system	21,574,642	1,359,922	-	22,934,564
Land structured facilities	<u>2,341,521</u>	<u>-</u>	<u>-</u>	<u>2,341,521</u>
Total capital assets being depreciated	<u>28,460,860</u>	<u>1,359,922</u>	<u>-</u>	<u>29,820,782</u>
Less accumulated depreciation for				
Machinery and equipment	623,899	56,586	-	680,485
Buildings and improvements	3,154,689	89,156	-	3,243,845
Water works system	4,824,941	560,194	-	5,385,135
Land structured facilities	<u>1,017,671</u>	<u>55,894</u>	<u>-</u>	<u>1,073,565</u>
Total accumulated depreciation	<u>9,621,201</u>	<u>761,830</u>	<u>-</u>	<u>10,383,031</u>
Total capital assets being depreciated, net	<u>18,839,659</u>	<u>598,092</u>	<u>-</u>	<u>19,437,752</u>
Business-type activities capital assets, net	<u>\$20,126,120</u>	<u>\$ 661,608</u>	<u>\$1,341,848</u>	<u>\$19,445,881</u>

NOTE 5: CAPITAL ASSETS – (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities

General government	\$ 68,996
Public safety	46,542
Public works	51,068
Public health	<u>10,067</u>
Total depreciation expense - governmental activities	<u>\$ 176,673</u>

Business-type activities

Utilities	\$ 715,680
Airport	<u>46,150</u>
Total depreciation expense - business-type activities	<u>\$ 761,830</u>

The Palacios Economic Development Corporation has \$12,799 of capital assets at September 30, 2015, consisting of various equipment and leasehold improvements. These assets were fully depreciated at September 30, 2015.

NOTE 6: EMPLOYEES' RETIREMENT PLAN

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined Benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefits in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2015 were as follows:

NOTE 6: EMPLOYEES' RETIREMENT PLAN (Continued)

Employee deposit rate	7.00%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0 repeating
Annuity increase (to retirees)	70.0% of CPI

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

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	31
Active employees	<u>33</u>
	81

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employees gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution plan rates for the City were 16.44% and 17.39% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$229,252, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

NOTE 6: EMPLOYEES' RETIREMENT PLAN (Continued)

Valuation Date	December 31st
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	3.00%
Overall Payroll Growth	3.00%
Salary Increases	3.50 % to 12.00% including inflation
Investment Rate of Return*	7.00%, net of pension plan investment expense, including inflation
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

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

The long-term expected rate of return on pension plan investments is 7%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 6: EMPLOYEES' RETIREMENT PLAN (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	<u>5.00%</u>	8.50%
 Total	 <u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension's plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 4,940,499	\$ 3,396,213	\$ 1,544,286
Changes for the year:			-
Service cost	218,395	-	218,395
Interest	346,962	-	346,962
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(222,073)	-	(222,073)
Change of assumptions	-	-	-
Contributions - Employer	-	216,636	(216,636)
Contributions - Employee	-	93,321	(93,321)
Net Investment Income	-	194,333	(194,333)
Benefit payments, including refunds of employee contributions	(186,200)	(186,200)	-
Administrative expense	-	(2,028)	2,028
Other changes	-	(167)	167
Net changes	<u>157,084</u>	<u>315,895</u>	<u>(158,811)</u>
Balance at 12/31/2014	<u>\$ 5,097,583</u>	<u>\$ 3,712,108</u>	<u>\$ 1,385,475</u>

NOTE 6: EMPLOYEES' RETIREMENT PLAN (Continued)

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

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

	1.0% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1.0% Increase in Discount Rate (8.0%)
City's Net Pension Liability:	\$ 2,132,689	\$ 1,385,475	\$ 778,129

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

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

For the year ended September 30, 2015 the City recognized pension expense of \$180,398.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (157,295)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	34,722	-
Contributions subsequent to the measurement date	-	-
Total	\$ 34,722	\$ (157,295)

\$448,176 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2015	\$ (56,098)
2016	(56,098)
2017	(19,059)
2018	8,682
2019	-
Thereafter	-
Total	\$ (122,573)

NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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 1st of any year to be effective the following January 1st.

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 postemployment benefit”, or OPEB.

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss encompassed in the areas of general liabilities, workers’ compensation claims, and employee health related expenses. The City has purchased general liability and workers’ compensation insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool for general liability and workers’ compensation coverage. Through the payment of contributions to the Texas Municipal

League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductible and is covered up to the limits of coverage after the deductible. Settlements of claims did not exceed insurance coverage for any of the past three years.

The City has also entered into an interlocal agreement with the Texas Municipal League Group Benefits Risk Pool for health insurance for its employees. The City pays the health care premiums for City employees. Employees have the option of paying dependent coverage via payroll deductions. The City has no liability for any claims incurred by participants in this plan.

NOTE 9: LONG-TERM DEBT

A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Tax Notes	\$ 43,100	\$ -	\$ 43,100	\$ -	\$ -
Compensated absences	29,319	-	5,441	23,878	23,878
Net Pension Liabilities	1,130,572	-	119,516	1,011,056	-
Equipment notes	67,667	-	26,431	41,236	27,742
Total governmental activity long-term liabilities	<u>\$ 1,270,658</u>	<u>\$ -</u>	<u>\$ 194,488</u>	<u>\$ 1,076,170</u>	<u>\$ 51,620</u>
Business-type activities					
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of obligation	3,400,000	-	180,000	3,220,000	185,000
Note Payable - Gov Cap Corp	529,404	-	88,234	441,170	88,234
Compensated absences	11,346	-	1,600	9,746	9,746
Net Pension Liabilities	375,570	-	39,702	335,868	-
Payable to developer	1,052,187	-	76,356	975,831	50,000
Total business-type activity long-term liabilities	<u>\$ 5,368,507</u>	<u>\$ -</u>	<u>\$ 385,892</u>	<u>\$ 4,982,615</u>	<u>\$ 332,980</u>

NOTE 9: LONG-TERM DEBT – (Continued)

B. General Obligation Refunding Bonds and Certificates of Obligation

The City issued general obligation refunding bonds in October 2004 to retire the remaining balance of the 1994 general obligation bonds. General obligation refunding bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for both governmental and business-type activities. There is no bonds outstanding of the original 1994 issue.

The City issued certificates of obligation in March 2011 to provide for water and sewer capital improvements.

General obligation refunding bonds and certificates of obligation currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Series 2004	2004 - 2014	1.50% - 3.80%	\$ 1,545,000
Series 2011	2011 - 2031	2.00% - 4.375%	\$ 3,580,000

Annual debt service requirements to maturity for general obligation refunding and certificates of obligation are as follows

<u>Year</u>	<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2016	185,000	123,800	308,800
2017-2021	1,025,000	528,225	1,553,225
2022-2026	905,000	344,100	1,249,100
2027-2031	<u>1,105,000</u>	<u>145,500</u>	<u>1,250,500</u>
	<u>\$ 3,220,000</u>	<u>\$ 1,141,625</u>	<u>\$ 4,361,625</u>

C. Tax Notes

The City also issued tax notes to provide funds for the acquisition of major capital facilities payable from the proceeds of an annual ad valorem tax. The tax notes have been issued for governmental type activities.

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Tax Notes, Series 2008	2008 - 2018	3.25% - 4.25%	\$ 264,000

NOTE 9: LONG-TERM DEBT – (Continued)

D. Equipment Notes

The City financed equipment with capital leases. The annual debt service requirement and maturity are as follows:

Year	Business-type Activities		Total
	Principal	Interest	
2016	27,742	1,438	29,180
2017	13,494	438	13,932
	<u>\$ 41,236</u>	<u>\$ 1,876</u>	<u>\$ 43,112</u>

Additionally, the City financed AMR systems and meters with capital leases. The annual debt obligation is as follows:

Year	Business-type Activities		Total
	Principal	Interest	
2016	75,194	13,040	88,234
2017	77,638	10,596	88,234
2018	80,161	8,073	88,234
2019	82,767	5,467	88,234
2020	85,457	2,777	88,234
	<u>\$ 401,217</u>	<u>\$ 39,953</u>	<u>\$ 441,170</u>

E. Payable to Developer

In 2005, the City entered into a reimbursement contract with a land development company that was anticipating purchasing property for the development of a residential subdivision. The amount of the reimbursement was based on the amount spent on certain infrastructure improvements incurred in the development of the subdivision. The total expense incurred by the developer amounted to \$1,405,101. The City has agreed to pay the developer 75% of the property taxes collected based on a formula agreed upon by the parties. The City will continue to pay the developer on an annual basis until 100% of the \$1,405,101 has been repaid. The City has made payments of \$66,982, \$87,154, \$50,017, \$32,785, \$24,807, \$91,889 and \$76,356 for the 2009, 2010, 2011, 2012, 2013, 2014 and 2015 fiscal years, respectively. The City has recorded the net liability of \$975,831 in the accompanying financial statements. There is no predetermined repayment schedule since the amounts paid annually depend on the amount of taxes collected on certain properties. The accompanying financial statements reflect an estimated current portion of \$50,000.

NOTE 10: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30 2015, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Airport	\$ 12,650
	Water and Sewer	46,723
	HOME	5,794
	Pavillion Restoration	12,833
Debt Service Fund		<u>238</u>
		<u>\$ 78,238</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>			
	<u>General Fund</u>	<u>Equipment Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General	\$ -	\$ 72,000	\$ -	\$ 72,000
Nonmajor Governmental	8,000	-	-	8,000
Water and Sewer	74,244	135,000	-	209,244
Airport	-	-	-	-
	<u>\$ 82,244</u>	<u>\$ 207,000</u>	<u>\$ -</u>	<u>\$ 289,244</u>

NOTE 11: COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2015, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 12: FUND BALANCES

The following is a detail of the governmental fund balances as of September 30, 2015:

	Governmental Fund Balances			Total
	Nonspendable	Restricted	Unassigned	
General				
Inventory	\$ 7,934	\$ -	\$ -	\$ 7,934
Unassigned	-	-	794,819	794,819
Nonmajor Governmental				
Retirement of long-term debt	-	77,924	-	77,924
Municipal court	-	24,707	-	24,707
State and federal grant programs	-	(17,127)	-	(17,127)
Public safety	-	9,221	-	9,221
Tourism	-	55,284	-	55,284
	<u>\$ 7,934</u>	<u>\$ 150,008</u>	<u>\$ 794,819</u>	<u>\$ 952,762</u>

NOTE 13: RESTATEMENT OF NET POSITION

During the fiscal year 2015, the City adopted GASB No. 68 Accounting and Financial Reporting for Pensions. With GASB 68, the City must report their net pension liability of the Texas Municipal Retirement System. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$1,009,186 for the governmental activities, \$335,247 for the business-type activities and \$34,048 for the component unit.

NOTE 14 TEXAS EMERGENCY SERVICES MRETIREMENT SYSTEM

A. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

At August 31, 2014, TESRS membership consisted of:

Retirees & Beneficiaries Currently Receiving Benefits	3,073
Terminated Members Entitled to Benefits, but not yet receiving them	2,161
Active Participants (Vested and Nonvested)	4,036

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005) recodified the provision and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic post-retirement benefit increases.

On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

B. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution and directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the fir actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participating in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

C. Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State appropriated \$1,530,343 for the fiscal year ended August 31, 2014.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection D below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total

contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

D. Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnership	5%	7.1%
Fixed income		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	100%	

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) - Entry Age b	Unfunded AAL (UAAL) b - a	Funded Ratio a/b	Total Members Covered c	UAAL Per Member Covered (b-a)/c
8/31/2010	\$ 64,113,803	\$ 81,264,230	\$ 17,150,427	78.9%	\$ 8,644	\$ 1,984
8/31/2012	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585
8/31/2014	83,761,038	109,854,799	26,093,761	76.2%	9,270	2,815

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Actuarial assumptions and methods of the latest valuation follows:

Valuation date	August 31, 2014
Actuarial cost method	Entry Age
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5 year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return	7.75% per year, net of investment expenses
Projected salary increases	N/A
Includes inflation at	3.50%
Cost of living adjustments	None

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 1,379,800	\$ 1,396,800	\$ 1,372,415	\$ (24,385)
Other taxes	661,100	661,100	628,330	(32,770)
Licenses and permits	27,600	28,300	32,597	4,297
Intergovernmental	-	1,276	1,276	-
Charges for services	-	-	-	-
Fines and forfeitures	66,000	90,800	94,744	3,944
Investment income	1,500	1,500	969	(531)
Miscellaneous	113,400	185,631	198,324	12,693
Total revenues	<u>2,249,400</u>	<u>2,365,407</u>	<u>2,328,655</u>	<u>(36,752)</u>
EXPENDITURES				
Current				
General government	684,590	702,705	655,134	47,571
Public safety	1,130,480	1,210,520	1,199,284	11,236
Public works	358,260	349,740	264,738	85,002
Special services	90,000	98,405	101,176	(2,771)
Health and welfare	22,670	24,235	22,571	1,664
Debt service	-	-	-	-
Total expenditures	<u>2,286,000</u>	<u>2,385,605</u>	<u>2,242,903</u>	<u>142,702</u>
Excess (deficiency) of revenues over expenditures	(36,600)	(20,198)	85,752	105,950
OTHER FINANCING SOURCES (USES)				
Transfers in	158,600	158,600	158,600	-
Transfers out	(122,000)	(148,360)	(148,356)	4
Total other financing sources (uses)	<u>36,600</u>	<u>10,240</u>	<u>10,244</u>	<u>4</u>
Net change in fund balance	-	(9,958)	95,996	105,954
Fund balance at beginning of year	<u>706,757</u>	<u>706,757</u>	<u>706,757</u>	<u>-</u>
Fund balance at end of year	<u>\$ 706,757</u>	<u>\$ 696,799</u>	<u>\$ 802,753</u>	<u>\$ 105,954</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Years (will ultimately be displayed)

	<u>2014</u>
Total pension liability	
Service Cost	\$ 218,395
Interest (on the Total Pension Liability)	346,962
Changes of Benefit Terms	-
Difference between expected and actual experience	(222,073)
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(186,200)</u>
Net Change in Total Pension Liability	157,084
Total Pension Liability - Beginning	<u>4,940,499</u>
Total Pension Liability - Ending (a)	<u><u>\$ 5,097,583</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	216,636
Contributions - Employee	93,321
Net Investment Income	194,333
Benefit payments, including refunds of employee contributions	(186,200)
Administrative Expense	(2,028)
Other	<u>(167)</u>
Net Change in Plan Fiduciary Net Position	315,895
Plan Fiduciary Net Position - Beginning	<u>3,396,213</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 3,712,108</u></u>
Net Pension Liability - Ending (a) - (b)	1,385,475
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.82%
Covered Employee Payroll	\$ 1,333,150
Net Pension Liability as a Percentage of Covered Employee Payroll	103.92%

The accompanying notes to required supplementary information are an integral part of this schedule.

Schedule of Employer Contributions

Last 10 Years (will ultimately be displayed)

	<u>2015</u>
Actuarial Determined Contribution	\$ 229,252
Contribution in relation to the actuarially determined contribution	<u>(233,693)</u>
Contribution deficiency (excess)	<u>\$ (4,441)</u>
Covered employee payroll	\$ 1,423,754
Contributions as a percentage of covered employee payroll	16.41%

Information for the prior nine fiscal years was not readily available. The City will compile the respective information over next nine fiscal years.

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF PALACIOS, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 September 30, 2015

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended September 30, 2015 the City complied with budgetary restrictions at all departmental levels except the following. The following table details these variances:

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Negative Actual</u>	<u>Variance</u>
Recycle Center	\$16,600	\$16,883	\$ (283)
Special Items	\$98,405	\$101,176	\$ (2,771)

NOTE 3: TEXAS MUNICIPAL RETIREMENT SYSTEM

Valuation Date

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

Valuation Date	December 31st
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	3.00%
Overall Payroll Growth	3.00%
Salary Increases	3.50 % to 12.00% including inflation
Investment Rate of Return*	7.00%, net of pension plan investment expense, including inflation
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF PALACIOS, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2015

	<u>Special Revenue Funds</u>		
	<u>Police Seized Drug</u>	<u>Hotel Motel Tax</u>	<u>Pavilion Restoration Fund</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 47,310	\$ -
Receivables (net)			
Taxes	-	7,974	-
Other	-	-	-
Due from other funds	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 55,284</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	12,833
Deferred revenue	-	-	-
Due to other governments	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>12,833</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenues	-	-	
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances			
Restricted			
Public safety	-	-	-
Tourism	-	55,284	-
State and federal grant programs	-	-	(12,833)
Municipal court	-	-	-
Debt service	-	-	-
Total fund balances	<u>-</u>	<u>55,284</u>	<u>(12,833)</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 55,284</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Special Revenue Funds

TDHCA Home Program	Court Technology	Court Security	Forfeiture Funds	Judicial Efficiency
\$ 2,764	\$ 11,440	\$ 13,267	\$ 12,234	\$ 1,789
-	-	-	-	-
119,860	-	-	-	-
-	-	-	-	-
\$ 122,624	\$ 11,440	\$ 13,267	\$ 12,234	\$ 1,789
\$ 122,624	\$ -	\$ -	\$ -	\$ -
5,795	-	-	-	-
-	-	-	-	-
-	-	-	4,802	-
128,419	-	-	4,802	-
-	-	-	-	-
-	-	-	7,432	1,789
-	-	-	-	-
(5,795)	-	-	-	-
-	11,440	13,267	-	-
-	-	-	-	-
(5,795)	11,440	13,267	7,432	1,789
\$ 122,624	\$ 11,440	\$ 13,267	\$ 12,234	\$ 1,789

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2015

	Disaster Recovery Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$ 1,500	\$ 77,509	\$ 167,813
Receivables (net)			
Taxes	-	3,984	11,958
Other	-	177	120,037
Due from other funds	-	238	238
Total assets	<u>\$ 1,500</u>	<u>\$ 81,908</u>	<u>\$ 300,046</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 122,624
Due to other funds	-	-	18,628
Deferred revenue	-	-	-
Due to other governments	-	-	4,802
Total liabilities	<u>-</u>	<u>-</u>	<u>146,054</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>3,984</u>	<u>3,984</u>
Total Deferred Inflows of Resources	<u>-</u>	<u>3,984</u>	<u>3,984</u>
Total liabilities and fund balances			
The accompanying notes are an integral part of this statement.			
Restricted			
Public safety	-	-	9,221
Tourism	-	-	55,284
State and federal grant programs	1,500	-	(17,128)
Municipal court	-	-	24,707
Debt service	-	77,924	77,924
Total fund balances	<u>1,500</u>	<u>77,924</u>	<u>150,008</u>
Total liabilities and fund balances	<u>\$ 1,500</u>	<u>\$ 81,908</u>	<u>\$ 300,046</u>

(concluded)

The accompanying notes are an integral part of this statement.

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CITY OF PALACIOS, TEXAS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the year ended September 30, 2015

	Special Revenue Funds		
	Police Seized Drug	Hotel Motel Tax	Pavilion Restoration Fund
REVENUES			
Taxes			
Hotel - motel tax	\$ -	\$ 28,532	\$ -
Ad valorem taxes	-	-	-
Court fees	-	-	-
Intergovernmental	-	-	68,762
Investment income			
Interest	-	93	5
Miscellaneous	-	-	-
Total revenues	<u>-</u>	<u>28,625</u>	<u>68,767</u>
EXPENDITURES			
Current			
General government			
Promotional expense	-	7,000	-
Public works	-	-	84,424
Principal			
Interest	-	-	-
Total expenditures	<u>-</u>	<u>7,000</u>	<u>84,424</u>
Excess (deficiency) of revenues over expenditures	-	21,625	(15,657)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	(8,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(8,000)</u>	<u>-</u>
Net change in fund balances	-	13,625	(15,657)
Fund balances at beginning of year	<u>-</u>	<u>41,659</u>	<u>2,824</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 55,284</u>	<u>\$ (12,833)</u>

The accompanying notes are an integral part of this statement.

Special Revenue Funds

TDHCA Home Program	Court Technology	Court Security	Forfeiture Funds	Judicial Efficiency
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	2,908	2,181	-	204
494,076	-	-	-	-
-	26	26	24	4
-	-	-	-	-
494,076	2,934	2,207	24	208
-	-	3,786	6,755	-
488,444	7,142	-	-	-
-	-	-	-	-
488,444	7,142	3,786	6,755	-
5,632	(4,208)	(1,579)	(6,731)	208
-	-	-	-	-
-	-	-	-	-
5,632	(4,208)	(1,579)	(6,731)	208
(11,427)	15,648	14,846	14,163	1,581
\$ (5,795)	\$ 11,440	\$ 13,267	\$ 7,432	\$ 1,789

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the year ended September 30, 2015

	Disaster Recovery Fund	Debt Service Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes			
Hotel - motel tax	\$ -	\$ -	\$ 28,532
Ad valorem taxes	-	52,672	52,672
Court fees	-	-	5,293
Intergovernmental	63,516	-	626,354
Investment income			
Interest	-	199	377
Miscellaneous	-	-	-
Total revenues	<u>63,516</u>	<u>52,871</u>	<u>713,228</u>
EXPENDITURES			
Current			
General government			
Promotional expense	-	-	17,541
Public works	63,516	-	643,526
Principal	-	43,100	43,100
Interest	-	2,232	2,232
Total expenditures	<u>63,516</u>	<u>45,332</u>	<u>706,399</u>
Excess (deficiency) of revenues over expenditures	-	7,539	6,829
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	(8,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(8,000)</u>
Net change in fund balances	-	7,539	(1,171)
Fund balances at beginning of year	<u>1,500</u>	<u>70,385</u>	<u>151,179</u>
Fund balances at end of year	<u>\$ 1,500</u>	<u>\$ 77,924</u>	<u>\$ 150,008</u>

(concluded)

The accompanying notes are an integral part of this statement.

GENERAL FUND

The General Fund is a constitutional fund and is utilized to account for all City revenues and expenditures except those which are required to be classed in other funds and such other funds that are presented separately to facilitate proper accountability.

CITY OF PALACIOS, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****BALANCE SHEET**

September 30, 2015

With comparative totals for September 30, 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 669,789	\$ 633,775
Receivables (net)		
Accounts	26,007	15,761
Taxes	351,994	361,955
Fines	78,702	72,492
Due from other governments	88,241	82,351
Due from other funds	78,000	58,302
Inventory	7,934	9,671
Total assets	<u>\$ 1,300,667</u>	<u>\$ 1,234,307</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 24,532	\$ 51,596
Accrued expenses	27,529	25,921
Due to other funds	238	-
Due to other governments	13,422	14,469
Total liabilities	<u>65,721</u>	<u>91,986</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenues	432,193	435,564
Total Deferred Inflows of Resources	<u>432,193</u>	<u>435,564</u>
Fund balances		
Nonspendable	7,934	9,671
Unassigned	794,819	697,086
Total fund balances	<u>802,753</u>	<u>706,757</u>
Total liabilities and fund balances	<u>\$ 1,300,667</u>	<u>\$ 1,234,307</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	2015		Variance Positive (Negative)	2014
	Final Budget	Actual		Actual
REVENUES				
Ad valorem taxes				
Current and delinquent taxes	\$ 1,343,300	\$ 1,321,303	\$ (21,997)	\$ 1,283,131
Penalty and interest	50,000	50,607	607	53,544
Tax certificates, other fees	3,500	505	(2,995)	3,185
Total ad valorem taxes	<u>1,396,800</u>	<u>1,372,415</u>	<u>(24,385)</u>	<u>1,339,860</u>
Other taxes				
Sales tax	340,000	311,937	(28,063)	341,861
Property tax reduction sales tax	170,000	155,951	(14,049)	171,197
Franchise tax	145,000	155,123	10,123	143,170
Bingo tax	100	-	(100)	25
Mixed beverage tax	6,000	5,319	(681)	4,552
Total other taxes	<u>661,100</u>	<u>628,330</u>	<u>(32,770)</u>	<u>660,805</u>
Licenses and permits				
Building and moving permits	16,300	16,582	282	21,355
Dog licenses	12,000	16,015	4,015	11,530
Total licenses and permits	<u>28,300</u>	<u>32,597</u>	<u>4,297</u>	<u>32,885</u>
Intergovernmental				
Grant proceeds	1,276	1,276	-	24,121
Charges for services				
Weedy lot mowing	-	-	-	-
Economic development	-	-	-	-
Total charges for services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fines and forfeitures				
Fines and court costs	90,800	94,744	3,944	76,538
Investment income				
Interest	1,500	969	(531)	1,526
Miscellaneous				
Insurance reimbursement	87,055	87,056	1	20,774
Maintenance contract	50,000	50,000	-	65,377
Other	48,576	61,268	12,692	43,268
Total miscellaneous	<u>185,631</u>	<u>198,324</u>	<u>12,693</u>	<u>129,419</u>
Total revenues	<u>2,365,407</u>	<u>2,328,655</u>	<u>(36,752)</u>	<u>2,265,154</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	2015			2014
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES				
General government				
Mayor and city council				
Salaries and wages	\$ 20,600	\$ 20,600	\$ -	\$ 20,400
Office supplies	1,400	1,393	7	1,200
Maintenance	1,644	848	796	1,945
Travel, training, and dues	3,938	3,936	2	2,342
Social security tax	1,668	1,668	-	1,653
Employee benefits	100	53	47	28
Capital outlay	-	-	-	-
Total mayor and city council	<u>29,350</u>	<u>28,498</u>	<u>852</u>	<u>27,568</u>
Elections				
Office supplies	1,200	-	1,200	1,494
Special services	750	-	750	849
Total elections	<u>1,950</u>	<u>-</u>	<u>1,950</u>	<u>2,343</u>
Administrative				
Salaries and wages	265,430	238,809	26,621	205,809
Office supplies	9,000	8,638	362	10,055
Maintenance - office equipment	25,400	23,868	1,532	29,058
Maintenance - buildings	39,000	38,242	758	10,649
Telephone	5,635	5,631	4	5,345
Electricity	3,685	3,684	1	3,426
Gas	480	470	10	426
Professional fees	39,545	39,537	8	12,194
Contractual services	18,100	21,460	(3,360)	37,220
Travel, training, and dues	11,900	8,805	3,095	8,082
Social security tax	22,500	18,145	4,355	15,753
Employee benefits	87,200	82,062	5,138	67,955
Capital outlay	10,000	10,000	-	-
Total administrative	<u>537,875</u>	<u>499,351</u>	<u>38,524</u>	<u>405,972</u>
Legal				
Special services	<u>8,000</u>	<u>2,543</u>	<u>5,457</u>	<u>4,253</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	2015		Variance	2014
	Final	Actual	Positive	Actual
	Budget		(Negative)	
EXPENDITURES - (CONTINUED)				
General government - (continued)				
Corporation court				
Salaries and wages	\$ 67,380	\$ 67,364	\$ 16	\$ 64,437
Office supplies	300	185	115	281
Maintenance - office equipment	6,230	6,227	3	4,402
Telephone	100	99	1	43
Contractual services	800	222	578	60
Travel, training, and dues	1,970	1,967	3	619
Social security tax	5,110	5,109	1	4,887
Employee benefits	13,640	13,569	71	12,732
Capital outlay	-	-	-	-
Total corporation court	<u>95,530</u>	<u>94,742</u>	<u>788</u>	<u>87,461</u>
Library				
Special services	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total general government	<u>702,705</u>	<u>655,134</u>	<u>47,571</u>	<u>557,597</u>
Public safety				
Police department				
Salaries and wages	795,150	795,134	16	758,908
Minor tools	5,664	6,067	(403)	5,178
Office supplies	5,770	5,768	2	3,788
Clothing	3,740	3,732	8	3,046
Maintenance - buildings	212	212	-	1,303
Maintenance - radios/radar	31,806	31,803	3	27,386
Maintenance - office equipment	7,400	7,310	90	6,126
Telephone, electricity, and gas	15,975	15,980	(5)	16,653
Special services	4,923	4,922	1	2,066
Travel, training, and dues	5,170	5,044	126	4,357
Support of prisoners	700	277	423	329
Social security tax	60,571	60,571	-	58,072
Employee benefits	236,939	236,936	3	224,285
Capital outlay	-	-	-	-
Total police department	<u>1,174,020</u>	<u>1,173,756</u>	<u>264</u>	<u>1,111,497</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	2015		Variance	2014
	Final		Positive	
	Budget	Actual	(Negative)	Actual
EXPENDITURES - (CONTINUED)				
Public safety - (continued)				
Fire department				
Supplies	\$ 8,200	\$ 935	\$ 7,265	\$ 8,136
Chemicals	200	-	200	-
Maintenance - equipment	500	-	500	125
Maintenance - buildings	1,000	-	1,000	269
Maintenance - radios	-	-	-	-
Telephone	1,100	1,346	(246)	1,169
Electricity	1,000	1,470	(470)	1,238
Gas	400	373	27	338
Travel, training, and dues	800	-	800	-
Contractual services	3,200	1,540	1,660	2,670
Employee benefits	20,100	19,864	236	20,914
Capital outlay	-	-	-	-
Total fire department	<u>36,500</u>	<u>25,528</u>	<u>10,972</u>	<u>34,859</u>
Total public safety	<u>1,210,520</u>	<u>1,199,284</u>	<u>11,236</u>	<u>1,146,356</u>
Public works				
Park maintenance				
Salaries	26,650	14,953	11,697	28,840
Tools and supplies	8,470	8,375	95	10,032
Chemicals	-	-	-	140
Maintenance	27,105	25,792	1,313	-
Electricity	15,000	12,334	2,666	19,453
Contractual services	85,200	82,060	3,140	104,549
Employee Benefit	11,130	8,628	2,502	14,284
Capital outlay	-	-	-	39,281
Total park maintenance	<u>173,555</u>	<u>152,142</u>	<u>21,413</u>	<u>216,579</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	2015			2014
	Final Budget	Actual	Variance Positive (Negative)	Actual
Public works - (continued)				
Streets				
Salaries and wages	\$ 25,650	\$ 14,975	\$ 10,675	\$ 22,826
Tools and supplies	4,000	4,786	(786)	19,451
Chemicals	2,500	2,904	(404)	1,513
Clothing	-	-	-	156
Maintenance - radios	100	-	100	-
Reconstruction materials	30,800	30,733	67	28,889
Pipe and culverts	6,000	5,305	695	17,587
Electricity	45,005	45,002	3	38,912
Contractual services	2,000	1,644	356	34,335
Social security tax	2,230	1,146	1,084	1,772
Employee benefits	7,900	6,101	1,799	9,532
Capital outlay	50,000	-	50,000	-
Total streets	<u>176,185</u>	<u>112,596</u>	<u>63,589</u>	<u>174,973</u>
Total public works	<u>349,740</u>	<u>264,738</u>	<u>85,002</u>	<u>391,552</u>
Health and welfare				
Animal control				
Supplies	2,515	1,326	1,189	6,351
Telephone	800	771	29	701
Electricity	1,345	1,346	(1)	1,265
Contractual services	2,475	2,195	280	635
Travel, training, and dues	500	50	450	436
Capital outlay	-	-	-	-
Total animal control	<u>7,635</u>	<u>5,688</u>	<u>1,947</u>	<u>9,388</u>
Recycling center				
Salaries and wages	8,965	9,180	(215)	22,500
Tools and supplies	1,475	1,469	6	1,351
Telephone	700	783	(83)	748
Electricity	900	904	(4)	793
Contractual services	1,445	1,441	4	2,809
Travel, training, and dues	838	837	1	1,024
Social security tax	700	692	8	1,726
Employee benefits	1,577	1,577	-	11,453
Capital outlay	-	-	-	-
Total recycling center	<u>16,600</u>	<u>16,883</u>	<u>(283)</u>	<u>42,404</u>
Total health and welfare	<u>24,235</u>	<u>22,571</u>	<u>1,664</u>	<u>51,792</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	2015			2014
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (CONTINUED)				
Special services				
Unemployment	\$ 1,400	\$ 1,323	\$ 77	\$ 10,247
Note principal	-	-	-	-
Note interest	-	-	-	-
Hospital assistance	10,000	10,000	-	10,000
Development agreement rebate	5,000	1,996	3,004	6,674
Insurance and bonds	79,505	85,322	(5,817)	70,463
Community improvements	2,500	2,535	(35)	798
Total special services	<u>98,405</u>	<u>101,176</u>	<u>(2,771)</u>	<u>98,182</u>
Total expenditures	<u>2,385,605</u>	<u>2,242,903</u>	<u>142,702</u>	<u>2,245,479</u>
Excess (deficiency) of revenues over expenditures	(20,198)	85,752	105,950	19,675
OTHER FINANCING SOURCES (USES)				
Transfers in	158,600	158,600	-	155,602
Transfers out	<u>(148,360)</u>	<u>(148,356)</u>	<u>4</u>	<u>(161,889)</u>
Total other financing sources (uses)	<u>10,240</u>	<u>10,244</u>	<u>4</u>	<u>(6,287)</u>
Net change in fund balance	(9,958)	95,996	105,954	13,388
Fund balance (as restated) at beginning of year	<u>706,757</u>	<u>706,757</u>	-	<u>693,369</u>
Fund balance at end of year	<u>\$ 696,799</u>	<u>\$ 802,753</u>	<u>\$ 105,954</u>	<u>\$ 706,757</u>

(concluded)

The accompanying notes are an integral part of this statement.

ENTERPRISE FUNDS

Enterprise funds account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly supported by user charges or those for which the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All activities necessary to provide services are accounted for in these funds, including, but not limited to, administration, operations, and maintenance. Debt service amounts are also included.

Water and Sewer Fund – Records transactions relative to the provision of water and wastewater services to the residents of the City.

Airport Fund – Records transactions relative to the operation of the City's Airport.

CITY OF PALACIOS, TEXAS**MAJOR ENTERPRISE FUND - WATER AND SEWER FUND****STATEMENT OF NET POSITION**

September 30, 2015

With comparative totals for September 30, 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 379,775	\$ 270,848
Receivables		
Accounts	475,379	452,249
Other	943	1,532
Allowance for uncollectible accounts	(165,846)	(165,124)
Due from other funds	-	277
Inventory	<u>48,517</u>	<u>76,857</u>
Total current assets	<u>738,768</u>	<u>636,639</u>
Noncurrent assets		
Capital assets		
Office equipment and furniture	47,715	47,715
Machinery and equipment	940,402	940,402
Service delivery system	22,934,565	21,574,643
Buildings and fixtures	3,404,639	3,404,639
Land structured facilities	<u>760,184</u>	<u>760,184</u>
Total capital assets	28,087,505	26,727,583
Accumulated depreciation	<u>(9,905,311)</u>	<u>(9,189,632)</u>
Subtotal	18,182,194	17,537,951
Land	8,129	8,129
Construction in progress	<u>-</u>	<u>1,278,332</u>
Net capital assets	<u>18,190,323</u>	<u>18,824,412</u>
Deferred expenses (net)	<u>39,952</u>	<u>45,730</u>
Total noncurrent capital assets	<u>18,230,275</u>	<u>18,870,142</u>
Total assets	<u>18,969,043</u>	<u>19,506,781</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Contributions after 12/31/13 through 9/30/14	<u>52,917</u>	<u>40,324</u>
Total Deferred Outflows of Resources	<u>52,917</u>	<u>40,324</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS*MAJOR ENTERPRISE FUND - WATER AND SEWER FUND**STATEMENT OF NET POSITION**September 30, 2015**With comparative totals for September 30, 2014***LIABILITIES**

Current liabilities

Accounts payable	71,039	77,672
Accrued expenses	9,209	8,001
Due to other funds	46,723	46,723
Accrued interest payable	15,475	16,038
Customer meter deposits	118,488	115,344
Accrued compensated absences	9,746	11,346
Current portion of payable to developer	50,000	50,000
Current portion of general obligation bonds	185,000	180,000
Current portion of notes	88,234	88,234

Total current liabilities

593,914 593,358

Noncurrent liabilities

Net Pension Liability	335,868	375,571
Notes payable	352,935	441,169
General obligation bonds	-	-
Certificates of obligation	3,035,000	3,220,000
Payable to developer	925,831	1,002,187

Total noncurrent liabilities

4,649,634 5,038,927**Total liabilities**5,243,548 5,632,285**DEFERRED INFLOWS OF RESOURCES**

Actual expense vs assumptions	38,254	-
Total Deferred Inflows of Resources	38,254	-

NET POSITION

Invested in capital assets, net of related debt	13,577,800	13,872,514
Unrestricted	162,358	42,306
Total net position	<u>\$ 13,740,158</u>	<u>\$ 13,914,820</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS*MAJOR ENTERPRISE FUND - WATER AND SEWER FUND**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**For the year ended September 30, 2015**With comparative totals for the year ended September 30, 2014*

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Charges for services	<u>\$ 1,718,047</u>	<u>\$ 1,781,690</u>
OPERATING EXPENSES		
Water system	579,379	645,617
Sanitary sewer system	303,903	282,086
Solid waste	-	-
Miscellaneous	26,163	19,654
Depreciation	715,679	704,031
Amortization	-	-
Total operating expenses	<u>1,625,124</u>	<u>1,651,388</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	92,923	130,302
NONOPERATING REVENUES (EXPENSES)		
Investment income		
Interest	861	1,114
Connection fees	8,750	6,300
Miscellaneous income (expense)	2,047	2,420
Interest and fiscal charges	<u>(133,515)</u>	<u>(149,838)</u>
Total nonoperating revenues (expenses)	<u>(121,857)</u>	<u>(140,004)</u>
Income (loss) before contributions and transfers	(28,934)	(9,702)
Contributions and transfers		
Capital contributions	63,516	1,278,332
Transfers out	(285,600)	(316,825)
Transfers in	<u>76,356</u>	<u>91,889</u>
Total contributions and transfers	<u>(145,728)</u>	<u>1,053,396</u>
Change in net position	(174,662)	1,043,694
Total net position at beginning of year (as restated)	<u>13,914,820</u>	<u>12,871,126</u>
Total net position at end of year	<u><u>\$ 13,740,158</u></u>	<u><u>\$ 13,914,820</u></u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS

MAJOR ENTERPRISE FUND - AIRPORT FUND

STATEMENT OF NET POSITION

September 30, 2015

With comparative totals for September 30, 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	1,225	725
Inventory	<u>15,776</u>	<u>22,189</u>
Total current assets	<u>17,001</u>	<u>22,914</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	85,462	85,462
Buildings and fixtures	66,479	66,479
Land structured facilities	<u>1,581,337</u>	<u>1,581,337</u>
Total capital assets	1,733,278	1,733,278
Accumulated depreciation	<u>(477,720)</u>	<u>(431,571)</u>
Subtotal	<u>1,255,558</u>	<u>1,301,707</u>
Construction in progress	<u>-</u>	<u>-</u>
Net capital assets	<u>1,255,558</u>	<u>1,301,707</u>
Total assets	<u>1,272,559</u>	<u>1,324,621</u>
LIABILITIES		
Accounts payable	477	1,034
Due to other funds	<u>12,650</u>	<u>5,977</u>
Total liabilities	<u>13,127</u>	<u>7,011</u>
NET POSITION		
Invested in capital assets	1,255,558	1,301,707
Unrestricted	<u>3,874</u>	<u>15,903</u>
Total net position	<u>\$ 1,259,432</u>	<u>\$ 1,317,610</u>

The accompanying notes are an integral part of this statement.

CITY OF PALACIOS, TEXAS*MAJOR ENTERPRISE FUND - AIRPORT FUND**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**For the year ended September 30, 2015**With comparative totals for the year ended September 30, 2014*

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Charges for services	\$ 28,236	\$ 20,920
Rental income	<u>12,102</u>	<u>12,027</u>
Total operating revenues	<u>40,338</u>	<u>32,947</u>
OPERATING EXPENSES		
Airport expenses		
Supplies	38,273	20,303
Repairs and maintenance	300	800
Utilities	8,018	11,994
Insurance and bonds	14,549	14,040
Special items	21,936	20,473
Depreciation	<u>46,149</u>	<u>46,149</u>
Total operating expenses	<u>129,225</u>	<u>113,759</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	(88,887)	(80,812)
NONOPERATING REVENUES (EXPENSES)		
Investment income		
Interest	11	1
Miscellaneous income (expense)	6,961	129,749
Nonoperating lease income	<u>23,737</u>	<u>33,837</u>
Total nonoperating revenues (expenses)	<u>30,709</u>	<u>163,587</u>
Income (loss) before transfers	(58,178)	82,775
Transfers		
Transfer out	-	<u>(1,500)</u>
Total transfers	<u>-</u>	<u>(1,500)</u>
Change in net position	(58,178)	81,275
Total net position at beginning of year	<u>1,317,610</u>	<u>1,236,335</u>
Total net position at end of year	<u>\$ 1,259,432</u>	<u>\$ 1,317,610</u>

The accompanying notes are an integral part of this statement.

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

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

To the City Council
City of Palacios, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palacios, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Palacios, Texas' basic financial statements, and have issued our report thereon dated January 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Palacios, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Palacios, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Palacios, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker, Stogner & Associates

El Campo, Texas
January 29, 2016

Baker Stogner & Associates
Certified Public Accountants

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El Campo, TX 77437

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council
City of Palacios, TX

Report on Compliance for Each Major Federal Program

We have audited the City of Palacios, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Palacios, Texas' major federal programs for the year ended September 30, 2015. The City of Palacios, Texas' federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Palacios, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Palacios, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Palacios, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Palacios, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of the City of Palacios, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Palacios, Texas internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Palacios, Texas internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and

corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Baker, Stogner + Associates

El Campo, Texas
January 29, 2016

CITY OF PALACIOS, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2015

FEDERAL

	Federal CFDA or State Number	Pass-through Entity Number	Federal Expenditures
U.S. Fish & Wildlife Service Coastal Impact Assistance Program	15.668	F13AF0080	\$ 84,423
US Department of Housing and Urban Development Pass through: GLO CDBG Rd 2.2	14.228	12-481-000-6647	63,516
Pass-thru Texas Department of Housing & Community Affairs HOME	14.239	1002115 1001851	96,662 <u>386,198</u>
Total HOME			<u>482,860</u>
National Highway Traffic Safety	20.616	585EG86500	<u>1,276</u>
Total Expenditure of Federal Awards			<u>\$ 632,075</u>

STATE

Texas Department of Transportation Assisted Airport Routine Maintenance	TXDot CSJ	M1413PALC	5,878 <u>-</u>
Total Expenditures of State Awards			<u>\$ 5,878</u>

CITY OF PALACIOS, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2015

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state activity of the City of Palacios, Texas (the City) under programs of the federal and state governments for the year ended September 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Uniform Grant Management Standards *Chapter IV Texas State Audit Circular*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2: BASIS OF ACCOUNTING

The City accounts for all awards under programs of the federal and state governments in the General and Special Revenue Funds. These programs 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 modified accrual basis of accounting is used for these funds. The basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable, and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal and state grant funds for governmental funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When such funds are advanced to the City, they are recorded as inflows or outflows until earned. Otherwise, federal and state grant funds are received on a reimbursement basis from the respective federal or state program agencies. Generally, unused balances are returned to the grantor at the close of the specified project periods.

CITY OF PALACIOS, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued: Unqualified

Internal control over financial reporting:

a. Material weakness(es) identified? No

b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Noncompliance material to the financial statements noted? N/A

Federal Awards

Internal control over major programs:

a. Material weakness(es) identified? No

b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Type of auditor's issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

CFDA Numbers

14.239

Name of Federal Program or Cluster

HOME

Dollar threshold used to distinguish between type A and type B Programs

\$300,000

Auditee qualified as low-risk auditee? No

CITY OF PALACIOS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued:	Unqualified
Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to the financial statements noted?	N/A

State Awards

Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Type of auditor's issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

State Contract Numbers

Name of State Program or Cluster

Dollar threshold used to distinguish between type A and type B Programs	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF PALACIOS, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2015

Section II - Financial Statement Findings

No matters reported

Section III - Federal Award Findings and Questioned Costs

No matters reported

Section IV - Status of Prior Year Findings and Questioned Costs

No matters reported

Section V - Corrective Action Plan

No matters reported