



GLEN SMITH – Mayor  
 JOHNNY TRAN – Councilmember Place 1  
 DONNA HARVEY SCHULMAN – Councilmember Place 2  
 MARY CROCKER – Councilmember Place 3  
 TROY LEWIS – Councilmember Place 4  
 WAYNE DODD – Councilmember Place 5  
 STEPHEN MCGOVERN – Councilmember Place 6

**CITY OF PALACIOS  
 CITY COUNCIL REGULAR MEETING AGENDA  
 August 27, 2019**

Notice is hereby given of a Regular Council Meeting of the Palacios City Council to be held August 27, 2019, beginning at 7:00 p.m. in the Council Chambers of City Hall, 311 Henderson Avenue, Palacios, TX, for the purpose of considering the following items:

**PUBLIC HEARING 6:45**

First public hearing on proposed tax rate.

**REGULAR COUNCIL MEETING 7:00 PM**

**CALL TO ORDER**

**INVOCATION** – Councilmember McGovern

**PLEDGE OF ALLEGIANCE** – Councilmember Lewis

**PLEDGE TO TEXAS FLAG** – Councilmember Lewis

**PLEDGE TO PALACIOS FLAG** – Councilmember Lewis

**VISITOR / CITIZEN FORUM**

**ADMINISTRATIVE REPORTS**

1. Update on Downtown Revitalization Project
2. City Manager's Report for July 2019

**ITEMS TO BE CONSIDERED**

1. Discuss and consider accepting the Annual Financial Audit for the 2017-2018 fiscal year for the City of Palacios submitted by Harrison, Waldrop & Uherek, LLP.
2. Discuss and consider approving an agreement with Specialized Public Finance Inc. (SPFI) for financial advisory services.
3. Discuss and consider authorizing Tammy McDonald to advertise for bids for an auditing firm for the City of Palacios 2018-2019 fiscal year budget.
4. Discuss and consider action to approve the following consent agenda items:  
 Minutes of the August 13, 2019 Regular Council Meeting

## EXECUTIVE SESSION

In accordance with Chapter 551, Government Code, (Open Meetings Law) the Council  
May go into Executive (closed) session in order to:

Consult with its attorney (551.071)

Discuss Real Estate transaction (551.072)

Deliberation regarding prospective gifts or donation (551.073)

Discuss personnel matters (551.074)

Deliberation regarding security devices (551.076)

Discuss economic development negotiations (551.087)

## ADJOURN

In compliance with the Americans with Disabilities Act, the City of Palacios will provide for reasonable accommodations for persons attending public meetings. To better serve attendees, requests should be received 24 hours prior to the meeting. Please contact City Hall, at 361.972.3605.

## CERTIFICATION

I certify that a copy of the August 27, 2019 agenda of items to be considered by the City Council was posted on the City Hall bulletin board by 5:00 p.m. on August 23, 2019.

*Clissa Mills*

Clissa Mills, City Secretary



*Posted 3pm  
8/23/19  
CM*

**City Manager's**  
**MONTHLY REPORT**  
**July 2019**

**HURICANE HARVEY**

- Closing out FEMA damage projects
- Grantworks and the City completed surveying the community for Harvey CDBG-DR project applications for the City.
- Working with GrantWorks to complete application and submit to GLO for Harvey CDBG-DR funds.

**ADMINISTRATION**

- Contractor 95% complete on the IKE CDBG-DR grant to rehabilitate Lift Stations.
- Working with GLO to submit application to fund the match for generators through CDBG-DR Program.
- TxDOT Aviation Department for Palacios Airport Improvements Grant to repair Runway 13-31, taxiways, and terminal apron; TxDOT Aviation division is advertising for bids. Pre-bid meeting is scheduled for September 5<sup>th</sup>.
- Closed out H-GAC Recycle Center Expansion Project Grant.
- Contracts signed and Pre-construction meeting scheduled in August for the sidewalk project utilizing the Downtown Revitalization Grant from Texas Department of Agriculture; construction to begin by the end of August.
- Ordered generator for City Hall utilizing the Rebuild Texas Grant funds.

**PUBLIC WORKS**

- Work Orders Completed: 6 water leaks, 13 animal calls, 4 sewer stoppage calls, 23 miscellaneous work orders, 95 completed work orders; cleaned ditches, resetting culverts and cleaning out existing culverts; repaired potholes.
- Completed the installation of a six-inch water line to service Humphrey from 10<sup>th</sup> to 11<sup>th</sup> streets.
- Mowed RR Park and other city properties, water plants, and 14 lift stations.
- Working on the demo of the building on 1<sup>st</sup> and Welch; owner providing the roll-offs and dumping fees.

**AIRPORT**

- Mowed and sprayed around buildings, runways, and hangers
- Met with Engineers to discuss final design and project implementation schedule for Ramp Grant project.

**POLICE**

- Calls for Service 567
- Citations 45 Warnings 46 issued, and 21 arrests
- Cases Assigned 27, Cases Closed 37
- Traffic accidents 5

## **FIRE**

- Fire Department continues to search for additional grants for new Fire Station.
- Contractor completed site work and pouring concrete Fire Station in August.

## **BUILDING PERMITS AND CODE ENFORCEMENT**

- Permits - New construction 1, Remodel 12, Electrical 8, Plumbing 5, Mechanical 3, Gas 1, Roofing 2, Leveling 3, Demo 1, Driveway 3, Misc. permits 2, Plan Reviews, & Consultations, and Inspections 31
- Code Enforcement – Contacts 22, Letters 8, door hangers 2 and worked with PD on 2 abandoned vehicles and dilapidated homes for future demolition.

**CITY OF PALACIOS, TEXAS**

*ANNUAL FINANCIAL REPORT*

*For the fiscal year ended September 30, 2018*

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of 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 unit, each major fund, and the aggregate remaining fund information of the City of Palacios, Texas (the "City") as of and for the year ended September 30, 2018, 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 the 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. The financial statements of the Palacios Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. 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 organization'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.

The Honorable Mayor and Members  
of the City Council  
City of Palacios, Texas

### 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 unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018, 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.

### Emphasis of Matter

As discussed in Note 13 to the financial statements, in 2018 the City adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 75 related to accounting for other post employment benefit plans. This resulted in a restatement of prior year balances. 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, schedule of changes in net pension liability and related ratios, schedule of changes in total OPEB liability and related ratios, and the schedules of employer contributions as listed in the table of contents, 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual major and nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual major and nonmajor fund financial statements and schedules 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 major and nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Mayor and Members  
of the City Council  
City of Palacios, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

August 23, 2019

The discussion and analysis of the City of Palacios' (the "City") financial performance provides an overview of the City's financial activities for the year ended September 30, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ended September 30, 2018, by \$19,111,740. Of this amount, \$693,304 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- At September 30, 2018, the City's governmental funds reported combined ending fund balances of \$1,333,229, an increase of \$183,135 in comparison with prior year.
- At September 30, 2018, unassigned fund balance for the General Fund was \$1,160,399 or 48% of total General Fund expenditures.
- During the year, the City's general revenues and transfers exceeded net expenses of the governmental activities by \$534,877. This represents a 13% increase in net position from the previous fiscal year as a result of operations.
- The City's outstanding debt for governmental and business-type activities (including net pension liability, OPEB liability, and compensated absences) had a net decrease of \$852,716 or 13% from the prior 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 basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

**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 4 to 12

**Government-wide Financial Statements**

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

Pages 13 to 15

**Fund Financial Statements**

*Provides information on the financial position of specific funds of the primary government.*

Pages 16 to 24

**Notes to Financial Statements**

*Provides a summary of significant accounting policies and related disclosures.*

Pages 25 to 51

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## OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

### Government-wide Financial Statements

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

The *statement of net position* presents information on all of the City's assets, deferred outflows, and liabilities, with the difference between the three 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.

The *statement of activities* presents information showing how the City's net position changed during fiscal year 2018. 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 (e.g., uncollected and earned, but unused vacation leave).

Both of these 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, special services, health and welfare, and interest on long-term debt. The business-type activities of the City include water and sewer services, as well as airport operation. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

### 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 and proprietary 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 available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 financial 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.

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## OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

### Fund Financial Statements - (Continued)

The City maintains several individual governmental funds. 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 and Pavilion Restoration Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual statements and schedules following the required supplementary information.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. Budgetary comparison schedules have been provided to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

The City maintains two types of *proprietary funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water/wastewater utility service and for its airport operations. The City uses an internal service fund to account for equipment maintenance. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer services and airport operation, which are considered to be major funds.

The basic proprietary fund financial statements follow the governmental fund financial statements.

*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. The notes to financial statements can be found on pages 25 through 51 of this report.

### 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, a schedule of changes in net pension liability and related ratios, a schedule of changes in OPEB liability and related ratios, and schedules of employer contributions. Required supplementary information can be found on pages 52 through 60 of this report.

The combining fund statements and schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 61 through 81 of this report.

## 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 and deferred outflows exceeded liabilities and deferred inflows by \$19,111,740 at the close of the fiscal year ended September 30, 2018.

At the end of fiscal year 2018, the City is able to report positive balances in all three categories of net position for the government as a whole.

<b>City of Palacios, Texas</b>						
<b>Net Position</b>						
	Governmental Activities		Business-type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
<b>ASSETS</b>						
Current and other assets	\$ 1,967,287	\$ 1,765,929	\$ 801,975	\$ 709,500	\$ 2,769,262	\$ 2,475,429
Capital assets (net)	4,643,461	4,462,271	17,703,304	18,427,697	22,346,765	22,889,968
<b>Total assets</b>	<b>6,610,748</b>	<b>6,228,200</b>	<b>18,505,279</b>	<b>19,137,197</b>	<b>25,116,027</b>	<b>25,365,397</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	149,346	380,405	37,337	118,276	186,683	498,681
<b>LIABILITIES</b>						
Current and other liabilities	267,704	275,525	599,614	574,021	867,318	849,546
Noncurrent liabilities	1,571,628	1,917,389	3,468,715	3,998,727	5,040,343	5,916,116
<b>Total liabilities</b>	<b>1,839,332</b>	<b>2,192,914</b>	<b>4,068,329</b>	<b>4,572,748</b>	<b>5,907,661</b>	<b>6,765,662</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	226,647	90,222	56,662	29,901	283,309	120,123
<b>NET POSITION</b>						
Net investment in capital assets	4,032,461	3,762,271	14,160,978	14,500,269	18,193,439	18,262,540
Restricted	224,997	504,042	-	-	224,997	504,042
Unrestricted	436,657	(107,075)	256,647	192,179	693,304	85,104
<b>Total net position</b>	<b>\$ 4,694,115</b>	<b>\$ 4,159,238</b>	<b>\$ 14,417,625</b>	<b>\$ 14,692,448</b>	<b>\$ 19,111,740</b>	<b>\$ 18,851,686</b>

\*2017 net position has been restated. See Note 13 of this report.

The largest portion of the City's net position (95%) reflects its investment in capital assets (e.g., land, buildings, streets, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The balance of unrestricted net position of \$693,304 may be used to meet the City's ongoing obligations to citizens and creditors.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**City of Palacios, Texas**

**Changes in Net Position**

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017*	2018	2017*	2018	2017*
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 120,608	\$ 163,149	\$ 1,666,075	\$ 1,648,055	\$ 1,786,683	\$ 1,811,204
Operating grants and contributions	121,336	164,397	-	-	121,336	164,397
Capital grants and contributions	50,522	302,930	-	325,930	50,522	628,860
General revenues:						
Property taxes	1,559,283	1,453,582	-	-	1,559,283	1,453,582
Sales taxes	561,980	477,648	-	-	561,980	477,648
Franchise taxes	162,091	147,156	-	-	162,091	147,156
Other taxes	38,825	39,668	-	-	38,825	39,668
Unrestricted investment earnings	15,151	6,187	2,526	1,246	17,677	7,433
Miscellaneous	610,224	924,090	36,450	46,521	646,674	970,611
<b>Total revenues</b>	<b>3,240,020</b>	<b>3,678,807</b>	<b>1,705,051</b>	<b>2,021,752</b>	<b>4,945,071</b>	<b>5,700,559</b>
<b>EXPENSES</b>						
General government	817,295	843,035	-	-	817,295	843,035
Public safety	1,290,144	1,264,030	-	-	1,290,144	1,264,030
Public works	560,298	898,127	-	-	560,298	898,127
Special Services	137,342	151,046	-	-	137,342	151,046
Health and Welfare	80,206	52,715	-	-	80,206	52,715
Interest on long-term debt	20,902	-	-	-	20,902	-
Water and sewer	-	-	1,686,505	1,695,446	1,686,505	1,695,446
Airport	-	-	92,325	101,540	92,325	101,540
<b>Total expenses</b>	<b>2,906,187</b>	<b>3,208,953</b>	<b>1,778,830</b>	<b>1,796,986</b>	<b>4,685,017</b>	<b>5,005,939</b>
Change in net position before transfers	333,833	469,854	(73,779)	224,766	260,054	694,620
Transfers	201,044	215,709	(201,044)	(215,709)	-	-
Change in net position	534,877	685,563	(274,823)	9,057	260,054	694,620
<b>Net position - October 1, as restated</b>	<b>4,159,238</b>	<b>3,473,675</b>	<b>14,692,448</b>	<b>14,683,391</b>	<b>18,851,686</b>	<b>18,157,066</b>
<b>Net position - ending</b>	<b>\$ 4,694,115</b>	<b>\$ 4,159,238</b>	<b>\$ 14,417,625</b>	<b>\$ 14,692,448</b>	<b>\$ 19,111,740</b>	<b>\$ 18,851,686</b>

\*2017 net position has been restated. See Note 13 of this report.

Governmental activities increased the City's net position by \$534,877. There was a net decrease of \$274,823 in net position reported in connection with the City's business-type activities. Therefore, there was an overall \$260,054 increase in the net position of the City.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

Governmental Activities

The increase in the net position of the governmental activities was due to the excess of revenues over expenditures in the amount of \$333,833, as well as \$201,044 of transfers in. Both revenues and expenditures decreased in total as compared to 2017 due to the completion of the Pavilion Restoration project.

**City of Palacios, Texas**  
**Expenses and Program Revenues - Governmental Activities**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Net (Expense) Revenue</u>
General government	817,295	28.12%	\$ 67,676	23.14%	\$ (749,619)
Public safety	1,290,144	44.39%	91,947	31.44%	(1,198,197)
Public works	560,298	19.28%	132,843	45.42%	(427,455)
Special services	137,342	4.73%	-	0.00%	(137,342)
Health and welfare	80,206	2.76%	-	0.00%	(80,206)
Interest on long-term debt	20,902	0.72%	-	0.00%	(20,902)
<b>Total</b>	<b>\$ 2,906,187</b>		<b>\$ 292,466</b>		<b>\$ (2,613,721)</b>

**City of Palacios, Texas**  
**Revenue by Source - Governmental Activities**

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 120,608	3.50%
Operating grants and contributions	121,336	3.53%
Capital grants and contributions	50,522	1.47%
Property taxes	1,559,283	45.31%
Sales taxes	561,980	16.33%
Franchise taxes	162,091	4.71%
Other taxes	38,825	1.13%
Unrestricted investment earnings	15,151	0.44%
Miscellaneous	610,224	17.73%
Transfers	201,044	5.84%
<b>Total</b>	<b>\$ 3,441,064</b>	

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)****Business-type Activities**

Business-type activities decreased the City's net position by \$274,823 or 1.9%. The main reason for the decrease is due to the decrease in capital grants and contributions by \$325,930.

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**City of Palacios, Texas**  
**Revenue by Source - Business-type Activities**

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<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 1,666,075	110.78%
Unrestricted investment earnings	2,526	0.17%
Miscellaneous	36,450	2.42%
Transfers	<u>(201,044)</u>	-13.37%
Total	<u>\$ 1,504,007</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, unreserved 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 fiscal year 2018, the City's governmental funds reported combined ending fund balances of \$1,333,229, an increase of \$183,135 in comparison with prior year. The net increase in fund balance was made up of an increase of \$470,125 in the General Fund and a \$280,688 decrease in the Pavilion Restoration Fund, a major special revenue fund.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2018, unassigned fund balance of the General Fund was \$1,160,399, while total fund balance was \$1,172,981. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 48% of the total General Fund expenditures, while total fund balance represents 49% of that same amount.

The fund balance of the City's General Fund increased by \$470,125 during the current fiscal year. However, the anticipated change in fund balance was \$50,000, a positive difference of \$420,125. Key factors in this variance were as follows:

- The City's revenues were \$267,292 more than what was anticipated.
- The City's expenditures were \$207,389 less than what was anticipated.
- The City's other financing sources were \$54,556 less than what was anticipated.

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## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)**

### **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 and Airport Fund at September 30, 2018, were \$253,021 and \$3,626, respectively.

Factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the General Fund's original budget and final amended budget were a net increase of \$0 to revenues and other financing sources and a net decrease of \$2,000 to expenditures.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$22,346,765 (net of accumulated depreciation). This investment in capital assets includes land, machinery and equipment, buildings, land structured facilities, and water and sewer system. The total net decrease in the City's investment in capital assets for the current fiscal year was 2% (a 4% increase for governmental activities and a 4% decrease for business-type activities). Major capital asset events during the current fiscal year included the following:

- The City completed the Pavilion Restoration project.
- The City purchased a truck for its fire department.
- The City completed various improvements to the water and sewer system.

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

#### **Long-term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,645,000 which consisted of the 2011 Certificates of Obligation. The City's bonded debt had a net decrease of \$200,000 or 7% during the fiscal year ended September 30, 2018. In addition, the City had tax notes outstanding in the amount of \$611,000 and notes payable balances that totaled \$897,326. Combined principal reductions on these debt balances in fiscal year 2018 was \$243,716.

Additional information on the City's long-term debt can be found in Note 9.

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following factors were considered in preparing the City's budget for the 2018-2019 fiscal year.

The total sales tax payments received by the City from the State Comptroller in fiscal year 2018 totaled \$715,575. This amount is an increase of \$29,780 over the previous year.

The certified assessed taxable property valuations for the 2018 tax roll total \$191,527,375 with a tax rate of \$0.85351 per \$100 valuation. \$0.83208 was allocated for maintenance and operations. The projected total property tax due is \$18,915 higher than the current year. The certified assessed taxable property valuations were more than the 2017 values.

Of the of projected 2018 property tax due, and using a 95% collection rate, \$130,098 is projected to be collected from the annexed Beachside subdivision. Of the \$130,098 projected collection, \$97,573 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, \$699,006 had been reimbursed leaving a balance of \$706,095.

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.

## **Basic Financial Statements**

**CITY OF PALACIOS, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Palacios Economic Development Corporation
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,315,383	\$ 488,366	\$ 1,803,749	\$ 514,384
Receivables (net)	451,314	299,344	750,658	2,699
Due from other governments	141,237	-	141,237	34,445
Interfund balances	46,723	(46,723)	-	-
Due from external parties	48	-	48	-
Inventory	6,133	60,988	67,121	-
Prepaid costs	6,449	-	6,449	-
Total current assets	<u>1,967,287</u>	<u>801,975</u>	<u>2,769,262</u>	<u>551,528</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	357,286	8,129	365,415	1,000
Buildings, infrastructure, and equipment (net)	4,286,175	17,695,175	21,981,350	25,120
Total noncurrent assets	<u>4,643,461</u>	<u>17,703,304</u>	<u>22,346,765</u>	<u>26,120</u>
<b>Total assets</b>	<u>6,610,748</u>	<u>18,505,279</u>	<u>25,116,027</u>	<u>577,648</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow related to pension	142,255	35,564	177,819	-
Deferred outflow related to OPEB	7,091	1,773	8,864	-
<b>Total deferred outflows of resources</b>	<u>149,346</u>	<u>37,337</u>	<u>186,683</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	82,425	80,123	162,548	150
Wages payable	46,974	15,451	62,425	1,397
Accrued interest payable	-	13,319	13,319	-
Deposits	-	138,896	138,896	5,000
Due to other governments	4,802	-	4,802	-
Accrued compensated absences	37,503	14,058	51,561	2,727
Current portion of long-term obligations	96,000	337,767	433,767	-
Total current liabilities	<u>267,704</u>	<u>599,614</u>	<u>867,318</u>	<u>9,274</u>
Noncurrent liabilities				
Net pension liability	972,327	243,081	1,215,408	-
OPEB liability	84,301	21,075	105,376	-
Noncurrent portion of long-term obligations	515,000	3,204,559	3,719,559	-
Total noncurrent liabilities	<u>1,571,628</u>	<u>3,468,715</u>	<u>5,040,343</u>	<u>-</u>
<b>Total liabilities</b>	<u>1,839,332</u>	<u>4,068,329</u>	<u>5,907,661</u>	<u>9,274</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflow related to pension	226,647	56,662	283,309	-
<b>Total deferred inflows of resources</b>	<u>226,647</u>	<u>56,662</u>	<u>283,309</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,032,461	14,160,978	18,193,439	26,120
Restricted for:				
Public safety	8,651	-	8,651	-
Tourism	87,119	-	87,119	-
State and federal grant programs	95,332	-	95,332	-
Municipal court	29,072	-	29,072	-
Debt service	4,823	-	4,823	-
Unrestricted	436,657	256,647	693,304	542,254
<b>Total net position</b>	<u>\$ 4,694,115</u>	<u>\$ 14,417,625</u>	<u>\$ 19,111,740</u>	<u>\$ 568,374</u>

The accompanying notes are an integral part of this statement.

**CITY OF PALACIOS, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the year ended September 30, 2018*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 817,295	\$ 39,516	\$ 28,160	\$ -
Public safety	1,290,144	81,092	10,855	-
Public works	560,298	-	82,321	50,522
Special services	137,342	-	-	-
Health and welfare	80,206	-	-	-
Interest on long-term debt	20,902	-	-	-
Total governmental activities	<u>2,906,187</u>	<u>120,608</u>	<u>121,336</u>	<u>50,522</u>
Business-type activities				
Water and sewer	1,686,505	1,641,176	-	-
Airport	92,325	24,899	-	-
Total business-type activities	<u>1,778,830</u>	<u>1,666,075</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,685,017</u>	<u>\$ 1,786,683</u>	<u>\$ 121,336</u>	<u>\$ 50,522</u>
<b>Component Unit</b>				
Palacios Economic Development Corporation	<u>\$ 135,465</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  
 Unrestricted investment earnings  
 Miscellaneous  
 Transfers  
 Total general revenues and transfers  
 Change in net position  
 Net position - beginning, as restated  
 Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business- type Activities	Total	Palacios Economic Development Corporation
\$ (749,619)	\$ -	\$ (749,619)	\$ -
(1,198,197)	-	(1,198,197)	-
(427,455)	-	(427,455)	-
(137,342)	-	(137,342)	-
(80,206)	-	(80,206)	-
(20,902)	-	(20,902)	-
<u>(2,613,721)</u>	<u>-</u>	<u>(2,613,721)</u>	<u>-</u>
-	(45,329)	(45,329)	-
-	(67,426)	(67,426)	-
-	(112,755)	(112,755)	-
<u>(2,613,721)</u>	<u>(112,755)</u>	<u>(2,726,476)</u>	<u>-</u>
-	-	-	<u>(135,465)</u>
1,521,725	-	1,521,725	-
37,558	-	37,558	-
561,980	-	561,980	187,327
162,091	-	162,091	-
38,825	-	38,825	-
15,151	2,526	17,677	3,328
610,224	36,450	646,674	46,100
201,044	(201,044)	-	-
<u>3,148,598</u>	<u>(162,068)</u>	<u>2,986,530</u>	<u>236,755</u>
534,877	(274,823)	260,054	101,290
<u>4,159,238</u>	<u>14,692,448</u>	<u>18,851,686</u>	<u>467,084</u>
<u>\$ 4,694,115</u>	<u>\$ 14,417,625</u>	<u>\$ 19,111,740</u>	<u>\$ 568,374</u>

**CITY OF PALACIOS, TEXAS**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

*September 30, 2018*

	<u>General</u>	<u>Pavilion Restoration Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 978,854	\$ 16,084	\$ 220,672	\$ 1,215,610
Receivables (net)	442,328	-	8,986	451,314
Due from other governments	103,335	37,902	-	141,237
Due from other funds	149,261	-	280	149,541
Inventory	6,133	-	-	6,133
Prepaid items	6,449	-	-	6,449
<b>Total assets</b>	<u>\$ 1,686,360</u>	<u>\$ 53,986</u>	<u>\$ 229,938</u>	<u>\$ 1,970,284</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 50,858	\$ 15,267	\$ -	\$ 66,125
Wages payable	46,974	-	-	46,974
Due to other funds	280	32,158	70,332	102,770
Due to other governments	-	-	4,802	4,802
<b>Total liabilities</b>	<u>98,112</u>	<u>47,425</u>	<u>75,134</u>	<u>220,671</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	415,267	-	1,117	416,384
<b>Total deferred inflows</b>	<u>415,267</u>	<u>-</u>	<u>1,117</u>	<u>416,384</u>
<b>FUND BALANCES</b>				
Nonspendable	12,582	-	-	12,582
Restricted	-	6,561	217,319	223,880
Unassigned	1,160,399	-	(63,632)	1,096,767
<b>Total fund balances</b>	<u>1,172,981</u>	<u>6,561</u>	<u>153,687</u>	<u>1,333,229</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 1,686,360</u>	<u>\$ 53,986</u>	<u>\$ 229,938</u>	<u>\$ 1,970,284</u>

The accompanying notes are an integral part of this statement.

**CITY OF PALACIOS, TEXAS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION**

**OF GOVERNMENTAL ACTIVITIES**

September 30, 2018

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<b>Total governmental fund balances</b>		<b>\$ 1,333,229</b>
<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.		141,000
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.		330,982
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		85,402
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 10,211,158	
Accumulated depreciation of governmental capital assets	<u>(5,625,224)</u>	4,585,934
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on pensions	142,255	
Deferred amount on OPEB	<u>7,091</u>	149,346
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:		
Tax notes	(611,000)	
Net pension liability	(972,327)	
OPEB liability	(84,301)	
Compensated absences	<u>(37,503)</u>	(1,705,131)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred amount on pensions		<u>(226,647)</u>
<b>Net position of governmental activities</b>		<b><u>\$ 4,694,115</u></b>

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, 2018*

	General	Pavilion Restoration Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 2,251,552	\$ -	\$ 52,472	\$ 2,304,024
Licenses and permits	33,516	-	-	33,516
Intergovernmental	71,336	37,902	12,620	121,858
Charges for services	6,136	-	-	6,136
Fines and forfeitures	79,799	-	4,304	84,103
Investment income	11,852	2,983	205	15,040
Miscellaneous	376,501	50,182	222,715	649,398
<b>Total revenues</b>	<u>2,830,692</u>	<u>91,067</u>	<u>292,316</u>	<u>3,214,075</u>
<b>EXPENDITURES</b>				
Current				
General government	706,516	-	38,891	745,407
Public safety	1,187,037	-	-	1,187,037
Public works	307,163	371,755	148,697	827,615
Health and welfare	66,084	-	-	66,084
Special services	139,811	-	-	139,811
Debt service				
Principal retirement	-	-	89,000	89,000
Interest and fiscal charges	-	-	20,030	20,030
<b>Total expenditures</b>	<u>2,406,611</u>	<u>371,755</u>	<u>296,618</u>	<u>3,074,984</u>
Excess (deficiency) of revenues over expenditures	424,081	(280,688)	(4,302)	139,091
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	172,600	-	-	172,600
Transfers out	(126,556)	-	(2,000)	(128,556)
<b>Total other financing sources (uses)</b>	<u>46,044</u>	<u>-</u>	<u>(2,000)</u>	<u>44,044</u>
Net change in fund balances	470,125	(280,688)	(6,302)	183,135
Fund balances at beginning of year	702,856	287,249	159,989	1,150,094
<b>Fund balances at end of year</b>	<u>\$ 1,172,981</u>	<u>\$ 6,561</u>	<u>\$ 153,687</u>	<u>\$ 1,333,229</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, 2018*

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<b>Total net change in fund balances - governmental funds</b>		<b>\$ 183,135</b>
<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 income of the Internal Service Fund is reported with governmental activities.		
		5,719
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Increase in capital assets	\$ 376,635	
Depreciation expense	<u>(174,794)</u>	201,841
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Tax note payment		89,000
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.		
Property taxes	28,981	
Other revenues	<u>(3,147)</u>	25,834
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:		
Net pension costs	57,158	
OPEB costs	(8,650)	
Increase in compensated absences	<u>(19,160)</u>	<u>29,348</u>
<b>Change in net position of governmental activities</b>		<b>\$ <u>534,877</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF PALACIOS, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2018

	Business-type Activities			Governmental
	Water and Sewer Fund	Airport Fund	Total	Internal Service Fund
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 482,380	\$ 5,986	\$ 488,366	\$ 99,773
Receivables (net)	299,344	-	299,344	-
Inventory	49,288	11,700	60,988	-
Total current assets	<u>831,012</u>	<u>17,686</u>	<u>848,698</u>	<u>99,773</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	8,129	-	8,129	-
Buildings, improvements, and equipment (net)	16,563,286	1,131,889	17,695,175	57,527
Total noncurrent assets	<u>16,571,415</u>	<u>1,131,889</u>	<u>17,703,304</u>	<u>57,527</u>
<b>Total assets</b>	<u>17,402,427</u>	<u>1,149,575</u>	<u>18,552,002</u>	<u>157,300</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow related to pension	35,564	-	35,564	-
Deferred outflow related to OPEB	1,773	-	1,773	-
<b>Total deferred outflows of resources</b>	<u>37,337</u>	<u>-</u>	<u>37,337</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	66,063	14,060	80,123	16,300
Wages payable	15,451	-	15,451	-
Deposits	138,896	-	138,896	-
Due to other funds	46,723	-	46,723	-
Accrued interest payable	13,319	-	13,319	-
Accrued compensated absences	14,058	-	14,058	-
Current portion of notes payable	132,767	-	132,767	-
Current portion of certificates of obligation	205,000	-	205,000	-
Total current liabilities	<u>632,277</u>	<u>14,060</u>	<u>646,337</u>	<u>16,300</u>
Noncurrent liabilities				
Net pension liability	243,081	-	243,081	-
OPEB liability	21,075	-	21,075	-
Noncurrent portion of notes payable	764,559	-	764,559	-
Noncurrent portion of certificates of obligation	2,440,000	-	2,440,000	-
Total noncurrent liabilities	<u>3,468,715</u>	<u>-</u>	<u>3,468,715</u>	<u>-</u>
<b>Total liabilities</b>	<u>4,100,992</u>	<u>14,060</u>	<u>4,115,052</u>	<u>16,300</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflow related to pension	56,662	-	56,662	-
<b>NET POSITION</b>				
Net investment in capital assets	13,029,089	1,131,889	14,160,978	57,527
Unrestricted net position	253,021	3,626	256,647	83,473
<b>Total net position</b>	<u>\$ 13,282,110</u>	<u>\$ 1,135,515</u>	<u>\$ 14,417,625</u>	<u>\$ 141,000</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, 2018

	Business-type Activities			Governmental
	Water and Sewer Fund	Airport Fund	Total	Internal Service Fund
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,641,176	\$ 12,407	\$ 1,653,583	\$ -
Rents	-	12,492	12,492	-
<b>Total operating revenues</b>	<u>1,641,176</u>	<u>24,899</u>	<u>1,666,075</u>	<u>-</u>
<b>OPERATING EXPENSES</b>				
Water system	595,240	-	595,240	-
Sanitary sewer system	228,470	-	228,470	-
Airport expenses	-	47,700	47,700	-
Other services and charges	71,199	-	71,199	-
Equipment expenses	-	-	-	130,186
Depreciation	679,796	44,625	724,421	21,206
<b>Total operating expenses</b>	<u>1,574,705</u>	<u>92,325</u>	<u>1,667,030</u>	<u>151,392</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	66,471	(67,426)	(955)	(151,392)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	2,468	58	2,526	111
Connection fees	6,455	-	6,455	-
Nonoperating lease income	-	23,737	23,737	-
Miscellaneous income	3,123	3,135	6,258	-
Interest charges	(111,800)	-	(111,800)	-
<b>Total nonoperating revenues (expenses)</b>	<u>(99,754)</u>	<u>26,930</u>	<u>(72,824)</u>	<u>111</u>
Income before transfers	(33,283)	(40,496)	(73,779)	(151,281)
Transfers				
Transfers in	74,556	-	74,556	157,000
Transfers out	(275,600)	-	(275,600)	-
<b>Total transfers</b>	<u>(201,044)</u>	<u>-</u>	<u>(201,044)</u>	<u>157,000</u>
Change in net position	(234,327)	(40,496)	(274,823)	5,719
Total net position at beginning of year, as restated	<u>13,516,437</u>	<u>1,176,011</u>	<u>14,692,448</u>	<u>135,281</u>
<b>Total net position at end of year</b>	<u>\$ 13,282,110</u>	<u>\$ 1,135,515</u>	<u>\$ 14,417,625</u>	<u>\$ 141,000</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, 2018

	Business-type Activities			Governmental
	Water and Sewer Fund	Airport Fund	Total	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 1,671,184	\$ 25,099	\$ 1,696,283	\$ -
Cash paid to suppliers for goods and services	(600,835)	(26,127)	(626,962)	(131,656)
Cash paid to employees for services	(283,283)	-	(283,283)	-
<b>Net cash provided (used) by operating activities</b>	<u>787,066</u>	<u>(1,028)</u>	<u>786,038</u>	<u>(131,656)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers (out) to other funds	(201,044)	-	(201,044)	157,000
Borrowings (repayments) to other funds	-	(6,671)	(6,671)	-
Connection fees	6,455	-	6,455	-
Miscellaneous income (expense)	3,123	26,872	29,995	-
Increase (decrease) in customer meter deposits	8,268	-	8,268	-
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(183,198)</u>	<u>20,201</u>	<u>(162,997)</u>	<u>157,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on capital debt	(371,783)	-	(371,783)	-
Interest paid on capital debt	(111,800)	-	(111,800)	-
Acquisition and construction of capital assets	(3,100)	(13,245)	(16,345)	-
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(486,683)</u>	<u>(13,245)</u>	<u>(499,928)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income	2,468	58	2,526	111
<b>Net cash provided (used) by investing activities</b>	<u>2,468</u>	<u>58</u>	<u>2,526</u>	<u>111</u>
Net increase (decrease) in cash and cash equivalents	119,653	5,986	125,639	25,455
Cash and cash equivalents at beginning of year	362,727	-	362,727	74,318
<b>Cash and cash equivalents at end of year</b>	<u>\$ 482,380</u>	<u>\$ 5,986</u>	<u>\$ 488,366</u>	<u>\$ 99,773</u>

(continued)

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, 2018

	Business-type Activities			Governmental
	Water and Sewer Fund	Airport Fund	Total	Internal Service Fund
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 66,471	\$ (67,426)	\$ (955)	\$ (151,392)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	679,796	44,625	724,421	21,206
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	30,008	200	30,208	-
(Increase) decrease in inventory	943	8,684	9,627	-
(Increase) decrease in deferred expense	16,317	-	16,317	-
(Increase) decrease in deferred outflow related to pension	39,134	-	39,134	-
(Increase) decrease in deferred outflow related to OPEB	(1,261)	-	(1,261)	-
Increase (decrease) in accounts payable	(8,477)	12,889	4,412	(1,470)
Increase (decrease) in wages payable	5,709	-	5,709	-
Increase (decrease) in deposits	-	-	-	-
Increase (decrease) in due to other governments	-	-	-	-
Increase (decrease) in compensated absences	8,421	-	8,421	-
Increase (decrease) in net pension liability	(102,751)	-	(102,751)	-
Increase (decrease) in OPEB liability	3,423	-	3,423	-
Increase (decrease) in deferred inflow related to pension	49,333	-	49,333	-
Total adjustments	720,595	66,398	786,993	19,736
<b>Net cash provided (used) by operating activities</b>	<b>\$ 787,066</b>	<b>\$ (1,028)</b>	<b>\$ 786,038</b>	<b>\$ (131,656)</b>

(concluded)

**CITY OF PALACIOS, TEXAS**  
*STATEMENT OF FIDUCIARY NET POSITION*  
*FIDUCIARY FUND*  
*September 30, 2018*

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 55,163
<b>Total assets</b>	<u>\$ 55,163</u>
<b>LIABILITIES</b>	
Due to others	\$ 55,115
Due to other funds	<u>48</u>
<b>Total liabilities</b>	<u>\$ 55,163</u>

The accompanying notes are an integral part of this statement.

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**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, 2018.

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.

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**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 activities) report information on all nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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.

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**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 funds:

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 Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The City has nine Special Revenue Funds, one of which has been reported as a major fund. The Pavilion Restoration Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for purposes of the Pavilion Restoration project.

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 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.

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.

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**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.

The proprietary fund is accounted for on a flow of *economic resources measurement focus* and utilizes the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

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 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 the enterprise fund includes 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

Procedures in establishing budgetary data reflected in the financial statements are as follows:

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.
6. All appropriations lapse at year-end. The City does not employ the use of encumbrances in its budgetary accounting.

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

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 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.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

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.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in the fund financial statements as well as in the government-wide statements. Prepaid items are recorded when purchased rather than when consumed.

I. Inventories

Inventories of materials and supplies are valued at cost (first-in, first-out). Estimated cost is used when actual cost figures are not available.

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

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), 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 acquisition 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 incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City 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

K. 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.

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

L. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts 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.

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.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

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

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.

O. Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The City did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2018. This Statement did not have an impact on the City's functions, financial position or results of operations.

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.

P. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP 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.

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**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Budgetary Compliance**

Budgetary compliance is monitored at the departmental level. There were two instances of expenditures exceeding the amount appropriated during the fiscal year 2017-2018.

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
General government			
Elections	\$ 2,300	\$ 3,473	\$ 1,173
Corporation court	99,580	103,410	3,830
Public safety			
Fire department	45,000	78,291	33,291
Health and welfare			
Recycling center	16,550	34,809	18,259

These over expenditures were funded by available fund balance in the respective fund.

**Deficit Fund Equity**

There were two individual fund deficits to report at September 30, 2018. These deficits were in the TCDP Sewer Project Fund in the amount of \$62,357 and the TDHCA Home Program Fund in the amount of \$1,275, which are both nonmajor special revenue funds. The deficits will be eliminated in future years by inter-fund transfers.

**NOTE 3: DEPOSITS AND INVESTMENTS**

The Reporting Entity'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.

As of September 30, 2018, the Reporting Entity had the following investments classified as cash and cash equivalents:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 1,062,904	28

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 fair value to report net position to compute share prices. Accordingly, the fair value of the position in this pool is the same as the value of the shares.

**Interest Rate Risk**

In accordance with the City's investment policy, the Reporting Entity 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 weighted average maturities cannot exceed 60 days.

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**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 Reporting Entity 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 Reporting Entity'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 Reporting Entity 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 Reporting Entity was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Reporting Entity 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 Reporting Entity's investments are invested in TexPool and they have no custodial credit risk.

**NOTE 4: RECEIVABLES**

Receivables at September 30, 2018, consist of the following:

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:				
Ad valorem taxes	\$ 540,549	\$ -	\$ 1,241	\$ 541,790
Franchise taxes	13,875	-	-	13,875
Accounts	13,186	509,789	-	522,975
Fines	94,891	-	-	94,891
Other	<u>-</u>	<u>518</u>	<u>7,869</u>	<u>8,387</u>
Total gross receivables	662,501	510,307	9,110	1,181,918
Less: Allowances	<u>220,173</u>	<u>210,963</u>	<u>124</u>	<u>431,260</u>
Total net receivables	<u>\$ 442,328</u>	<u>\$ 299,344</u>	<u>\$ 8,986</u>	<u>\$ 750,658</u>

The City's governmental funds report unavailable 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 unavailable 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	\$ 329,865	\$ -	\$ 329,865
Fines	85,402	-	85,402
Nonmajor Funds			
Ad valorem taxes	<u>1,117</u>	<u>-</u>	<u>1,117</u>
	<u>\$ 416,384</u>	<u>\$ -</u>	<u>\$ 416,384</u>

The City's property taxes are levied annually on October 1<sup>st</sup> on the basis of the Appraisal District's assessed values as of January 1<sup>st</sup> of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. Taxes are levied on October 1<sup>st</sup> and payable by the following January 31<sup>st</sup>, which comprise the collection dates for the current tax roll. The Matagorda County Tax Assessor and Collector bills, collects, and remits all ad valorem taxes.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.85351 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.84000 and \$0.01351, respectively. The resulting adjusted total tax levy was \$1,532,830 on the total adjusted taxable valuation of \$179,591,335 for the 2017 tax year.

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**NOTE 5: CAPITAL ASSETS**

The Reporting Entity's capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Primary Government</b>				
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 357,286	\$ -	\$ -	\$ 357,286
Construction in progress	2,468,074	341,540	2,809,614	-
Total capital assets not being depreciated	<u>2,825,360</u>	<u>341,540</u>	<u>2,809,614</u>	<u>357,286</u>
Capital assets, being depreciated				
Machinery and equipment	2,377,636	35,095	-	2,412,731
Buildings and improvements	947,265	-	-	947,265
Land structured facilities	5,068,831	2,809,614	-	7,878,445
Total capital assets being depreciated	<u>8,393,732</u>	<u>2,844,709</u>	<u>-</u>	<u>11,238,441</u>
Less accumulated depreciation for				
Machinery and equipment	2,139,128	70,291	-	2,209,419
Buildings and improvements	380,338	57,852	-	438,190
Land structured facilities	4,237,354	67,303	-	4,304,657
Total accumulated depreciation	<u>6,756,820</u>	<u>195,446</u>	<u>-</u>	<u>6,952,266</u>
Total capital assets being depreciated, net	<u>1,636,911</u>	<u>2,649,263</u>	<u>-</u>	<u>4,286,175</u>
Governmental activities capital assets, net	<u>\$ 4,462,271</u>	<u>\$ 2,990,803</u>	<u>\$ 2,809,614</u>	<u>\$ 4,643,461</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 8,129	\$ -	\$ -	\$ 8,129
Construction in progress	378,130	-	378,130	-
Total capital assets not being depreciated	<u>386,259</u>	<u>-</u>	<u>378,130</u>	<u>8,129</u>
Capital assets, being depreciated				
Machinery and equipment	1,081,079	13,245	-	1,094,324
Buildings and improvements	3,516,640	3,100	-	3,519,740
Water and sewer system	22,957,564	378,130	-	23,335,694
Land structured facilities	2,341,521	-	-	2,341,521
Total capital assets being depreciated	<u>29,896,803</u>	<u>394,475</u>	<u>-</u>	<u>30,291,279</u>
Less accumulated depreciation for				
Machinery and equipment	795,003	59,800	-	854,803
Buildings and improvements	3,413,380	64,290	-	3,477,670
Water and sewer system	6,483,918	553,265	-	7,037,183
Land structured facilities	1,179,382	47,066	-	1,226,448
Total accumulated depreciation	<u>11,871,684</u>	<u>724,421</u>	<u>-</u>	<u>12,596,104</u>
Total capital assets being depreciated, net	<u>18,025,119</u>	<u>(329,946)</u>	<u>-</u>	<u>17,695,175</u>
Business-type activities capital assets, net	<u>\$ 18,411,378</u>	<u>\$ (329,946)</u>	<u>\$ 378,130</u>	<u>\$ 17,703,304</u>

**NOTE 5: CAPITAL ASSETS - (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Discretely Presented Component Unit</b>				
<b>Palacios Economic Development Corporation</b>				
Capital assets, not being depreciated				
Land	\$ -	\$ 1,000	\$ -	\$ 1,000
Total capital assets not being depreciated	-	1,000	-	1,000
Capital assets, being depreciated				
Machinery and equipment	3,300	-	-	3,300
Buildings and improvements	9,499	25,441	-	34,940
Total capital assets being depreciated	12,799	25,441	-	38,240
Less accumulated depreciation for				
Machinery and equipment	3,300	-	-	3,300
Buildings and improvements	9,499	321	-	9,820
Total accumulated depreciation	12,799	321	-	13,120
Total capital assets being depreciated, net	-	25,120	-	25,120
Discretely presented component unit capital assets, net	\$ -	\$ 26,120	\$ -	\$ 26,120

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

<b>Governmental activities</b>		
General government		\$ 88,821
Public safety		45,447
Public works		48,943
Culture and recreation		12,235
Total depreciation expense - governmental activities		\$ 195,446
<b>Business-type activities</b>		
Water and sewer		\$ 679,796
Airport		44,625
Total depreciation expense - business-type activities		\$ 724,421

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**NOTE 6: DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates as one of 883 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](http://www.tmr.com).

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 2018 were as follows:

Employee deposit rate	7.0%
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	42
Active employees	<u>34</u>
	<u>94</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee 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 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.39% and 17.87% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$245,910, and were equal to the required contributions.

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**NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)**

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Overall Payroll Growth	2.8%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disables annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. . In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

**NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)**

Net Pension Liability - (Continued)

*Actuarial Assumptions - (Continued)*

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	<u>5.00%</u>	7.50%
<b>Total</b>	<b><u>100.00%</u></b>	

*Discount Rate*

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

	<b>Increase (Decrease)</b>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
<b>Balance at 12/31/2016</b>	\$ 5,950,540	\$ 4,221,350	\$ 1,729,190
Changes for the year:			
Service cost	247,758	-	247,758
Interest	401,257	-	401,257
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(234,294)	-	(234,294)
Change of assumptions	-	-	-
Contributions - Employer	-	248,464	(248,464)
Contributions - Employee	-	98,765	(98,765)
Net investment income	-	584,460	(584,460)
Benefit payments, including refunds of employee contributions	(259,746)	(259,746)	-
Administrative expense	-	(3,032)	3,032
Other changes	-	(154)	154
Net changes	<u>154,975</u>	<u>668,757</u>	<u>(513,782)</u>
<b>Balance at 12/31/2017</b>	<b><u>\$ 6,105,515</u></b>	<b><u>\$ 4,890,107</u></b>	<b><u>\$ 1,215,408</u></b>

**NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)**

Net Pension Liability - (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 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$2,071,536	\$1,215,408	\$516,404

*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.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2018 the City recognized reduction in pension expense of \$71,443.

At September 30, 2018, 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	\$ -	\$ 154,070
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	129,239
Contributions subsequent to the measurement date	177,819	-
Total	\$ 177,819	\$ 283,309

\$177,819 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, 2019. 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
2018	\$ (86,306)
2019	(77,175)
2020	(59,923)
2021	(59,903)
2022	-
Thereafter	-
Total	(283,307)

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**NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)**

Plan Description and Benefits Provided

TMRS administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership

At the December 31, 2017 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>34</u>
Total	<u>56</u>

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.25%	0.05%
2018	0.24%	0.05%

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**NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**

Total OPEB Liability

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

*Actuarial Assumptions*

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%; based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates-service retirees	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
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*Implementing GASB Statement No. 75*

In the year of implementation (fiscal year ended September 30, 2018), the City made a prior period adjustment for the Total OPEB Liability as of the 12/31/16 measurement date and recorded a deferred outflow of resources for contributions recorded by the City (retiree portion of SDB rate only) from December 31, 2016 to September 30, 2017. TMRS elected not to calculate other deferrals as of the December 31, 2016 measurement date.

**NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**

Total OPEB Liability - (Continued)

*Changes in Total OPEB Liability*

The following details the changes in the Total OPEB liability:

<b>Balance at 12/31/16</b>	<b>\$ 88,260</b>
Changes for the year:	
Service cost	6,067
Interest	3,438
Change of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	8,316
Benefit payments	(705)
Net changes	<u>17,116</u>
<b>Balance at 12/31/17</b>	<b><u>\$ 105,376</u></b>

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1.0% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1.0% Increase in Discount Rate (4.31%)
City's Total OPEB Liability:	\$126,812	\$105,376	\$88,749

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$10,813.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in actuarial assumptions	6,476	-
Contributions subsequent to the measurement date	2,388	-
<b>Total</b>	<b>\$ 8,864</b>	<b>\$ -</b>

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**NOTE 8: RISK MANAGEMENT**

The City is exposed to various risks of loss encompassed in the areas of general liabilities and workers compensation claims. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool 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 deductibles and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The City has also entered into an interlocal agreement with the Texas Municipal League Intergovernmental Employees Benefit Pool for health benefits coverage for its employees. The City pays the premiums for full-time employees. Dependent coverage is available at additional premiums paid by the employee.

**NOTE 9: LONG-TERM DEBT****A. Changes In Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
<b>Governmental activities</b>					
Tax notes	\$ 700,000	\$ -	\$ 89,000	\$ 611,000	\$ 96,000
Net pension liability	1,383,353	-	411,026	972,327	-
OPEB liability	70,608	13,693	-	84,301	-
Compensated absences	<u>18,343</u>	<u>79,209</u>	<u>60,049</u>	<u>37,503</u>	<u>37,503</u>
Total governmental activity long-term liabilities	<u>\$ 2,172,304</u>	<u>\$ 92,902</u>	<u>\$ 560,075</u>	<u>\$ 1,705,131</u>	<u>\$ 133,503</u>
<b>Business-type activities</b>					
Certificates payable					
Certificates of obligation	<u>\$ 2,845,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 2,645,000</u>	<u>\$ 205,000</u>
Total certificates payable	<u>2,845,000</u>	<u>-</u>	<u>200,000</u>	<u>2,645,000</u>	<u>205,000</u>
Note payable - Gov Cap Corp	248,385	-	80,161	168,224	82,767
Payable to developer	803,657	-	74,555	729,102	50,000
Net pension liability	345,832	-	102,751	243,081	-
OPEB liability	17,652	3,423	-	21,075	-
Compensated absences	<u>5,637</u>	<u>30,930</u>	<u>22,509</u>	<u>14,058</u>	<u>14,058</u>
Total business-type activity long-term liabilities	<u>\$ 4,266,163</u>	<u>\$ 34,353</u>	<u>\$ 479,976</u>	<u>\$ 3,820,540</u>	<u>\$ 351,825</u>

**NOTE 9: LONG-TERM DEBT - (Continued)**

A. Changes In Long-term Liabilities - (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Discretely Presented Component Unit</b>					
<b>Palacios Economic Development Coporation</b>					
Compensated absences	\$ 152	\$ 3,554	\$ 979	\$ 2,727	\$ 2,727
Total discretely presented component unit long-term liabilities	<u>\$ 152</u>	<u>\$ 3,554</u>	<u>\$ 979</u>	<u>\$ 2,727</u>	<u>\$ 2,727</u>

Compensated absences are generally liquidated by the General Fund for the governmental activities and by the Water and Sewer Fund for the business-type activities.

B. Certificates of Obligation

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

Certificates of obligation currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Series 2011	2011 - 2031	2.00% - 4.375%	\$ 3,580,000

Annual debt service requirements to maturity for certificates of obligation are as follows:

<u>Year</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 205,000	\$ 106,550	\$ 311,550
2020	210,000	99,375	309,375
2021	220,000	91,500	311,500
2022	165,000	82,700	247,700
2023	175,000	76,100	251,100
2024-2028	980,000	270,100	1,250,100
2029-2031	690,000	60,700	750,700
	<u>\$ 2,645,000</u>	<u>\$ 787,025</u>	<u>\$ 3,432,025</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.

Tax notes currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Series 2017	2018 - 2024	2.150%	\$ 700,000

**NOTE 9: LONG-TERM DEBT - (Continued)**

C. Tax Notes - (Continued)

Annual debt service requirements to maturity for tax notes are as follows:

Year	Governmental Activities		
	Principal	Interest	Total
2019	\$ 96,000	\$ 12,105	\$ 108,105
2020	99,000	10,008	109,008
2021	101,000	7,858	108,858
2022	103,000	5,665	108,665
2023	105,000	3,429	108,429
2024	107,000	1,151	108,151
	<u>\$ 611,000</u>	<u>\$ 40,216</u>	<u>\$ 651,216</u>

D. Note Payable

The City financed AMR systems and meters with a note. The equipment not currently outstanding is as follows:

	Term	Interest Rate	Original Amount
Government Capital Corporation	2014 - 2020	3.257%	\$ 544,432

Annual debt service requirements to maturity for the note payable are as follows:

Year	Business-type Activities		
	Principal	Interest	Total
2019	\$ 82,767	\$ 5,467	\$ 88,234
2020	85,457	2,777	88,234
	<u>\$ 168,224</u>	<u>\$ 8,244</u>	<u>\$ 176,468</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, \$76,356, \$59,783, \$112,391 and \$74,555 for the 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 fiscal years, respectively. The City has recorded the net liability of \$729,102 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. The balances at year-end relate to tax collections deposited in the Debt Service Fund that were owed to the General Fund. Interfund receivable and payable balances as of September 30, 2018, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Pavilion Restoration	\$ 32,158
	Water and Sewer	46,723
	Nonmajor governmental funds	70,332
	Fiduciary fund	48
Nonmajor governmental fund		
Debt Service	General	<u>280</u>
		<u>\$ 149,541</u>

B. Interfund Transfers

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

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Internal Service Fund</u>	
General Fund	\$ -	\$ 74,556	\$ 52,000	\$ 126,556
Nonmajor Funds	2,000	-	-	2,000
Water and Sewer Fund	<u>170,600</u>	<u>-</u>	<u>105,000</u>	<u>275,600</u>
	<u>\$ 172,600</u>	<u>\$ 74,556</u>	<u>\$ 157,000</u>	<u>\$ 404,156</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 collectibility of any related receivable at September 30, 2018, 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.

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**NOTE 12: FUND BALANCES**

The following is a detail of the governmental fund balances as of September 30, 2018:

	Governmental Fund Balances			Total
	Nonspendable	Restricted	Unassigned	
General				
Inventory and prepaids	\$ 12,582	\$ -	\$ -	\$ 12,582
Unassigned	-	-	1,160,399	1,160,399
Pavilion Restoration				
State and federal grant programs	-	6,561	-	6,561
Nonmajor governmental				
Retirement of long-term debt	-	3,706	-	3,706
Municipal court	-	29,072	-	29,072
State and federal grant programs	-	88,771	-	88,771
Public safety	-	8,651	-	8,651
Tourism	-	87,119	-	87,119
Unrestricted	-	-	(63,632)	(63,632)
	<u>\$ 12,582</u>	<u>\$ 223,880</u>	<u>\$ 1,096,767</u>	<u>\$ 1,333,229</u>

**NOTE 13: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

The GASB has issued the following statement which became effective for fiscal year 2018:

GASB Statement No. 75: Accounting and Financial Reporting for Post-employment Benefits Other than Pensions replaces previous authoritative literature. For plans that do not have formal trusts, GASB Statement No. 75 requires state and local government employers to recognize the total OPEB liability and the related OPEB expense on their financial statements along with the related deferred outflows and inflows of resources. In addition to the deferred outflows/inflows associated with plan experience and assumption changes, the standard requires the benefit payments and administrative costs incurred subsequent to the measurement date and before the end of the employer's reporting period to be reported as a deferred outflow of resources.

The implementation of GASB No. 75 resulted in the restatement of beginning net position for the recording of the beginning OPEB liability and the beginning deferred outflow for contributions made after the measurement date. Prospectively applying the change results in the adjustments below.

**NOTE 13: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS - (Continued)**

	<u>Government-wide</u>		<u>Fund Level</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water and Sewer</u>	<u>EDC</u>
Net position at September 30, 2017, as previously reported	\$ 4,325,469	\$ 14,652,824	\$ 13,476,813	\$ 432,877
Restatement of Total Pension liability as of September 30, 2017	(76,964)	77,770	77,770	13,633
Restatement of Total Pension deferred inflows as of September 30, 2017	60,907	22,572	22,572	33,223
Restatement of Total Pension deferred outflows as of September 30, 2017	(81,614)	(43,578)	(43,578)	(12,649)
Recording of Total OPEB - SDB liability as of September 30, 2017	(70,608)	(17,652)	(17,652)	-
Deferral for OPEB - SDB contributions made after the measurement date	<u>2,048</u>	<u>512</u>	<u>512</u>	<u>-</u>
Net position at September 30, 2017, as restated	<u>\$ 4,159,238</u>	<u>\$ 14,692,448</u>	<u>\$ 13,516,437</u>	<u>\$ 467,084</u>

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018			Variance Positive (Negative)	2017
	Original Budget	Final Budget	Actual		Actual
<b>REVENUES</b>					
Taxes	\$ 2,198,100	\$ 2,198,100	\$ 2,251,552	\$ 53,452	\$ 2,101,417
Licenses and permits	30,600	30,600	33,516	2,916	32,322
Intergovernmental	35,200	35,200	71,336	36,136	164,397
Charges for services	6,500	6,500	6,136	(364)	-
Fines and forfeitures	95,000	95,000	79,799	(15,201)	123,355
Investment income	4,000	4,000	11,852	7,852	4,663
Miscellaneous	194,000	194,000	376,501	182,501	318,362
<b>Total revenues</b>	<u>2,563,400</u>	<u>2,563,400</u>	<u>2,830,692</u>	<u>267,292</u>	<u>2,744,516</u>
<b>EXPENDITURES</b>					
Current					
General government	751,810	751,810	706,516	45,294	718,000
Public safety	1,171,840	1,171,840	1,187,037	(15,197)	1,241,071
Public works	448,000	448,000	307,163	140,837	796,248
Special services	192,100	192,100	139,811	52,289	138,920
Health and welfare	52,250	50,250	66,084	(15,834)	49,126
<b>Total expenditures</b>	<u>2,616,000</u>	<u>2,614,000</u>	<u>2,406,611</u>	<u>207,389</u>	<u>2,943,365</u>
Excess (deficiency) of revenues over expenditures	(52,600)	(50,600)	424,081	474,681	(198,849)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	152,600	152,600	172,600	20,000	158,600
Transfers out	(52,000)	(52,000)	(126,556)	(74,556)	(194,391)
<b>Total other financing sources (uses)</b>	<u>100,600</u>	<u>100,600</u>	<u>46,044</u>	<u>(54,556)</u>	<u>(35,791)</u>
Change in fund balance	48,000	50,000	470,125	420,125	(234,640)
Fund balance at beginning of year	<u>702,856</u>	<u>702,856</u>	<u>702,856</u>	-	<u>937,496</u>
<b>Fund balance at end of year</b>	<u>\$ 750,856</u>	<u>\$ 752,856</u>	<u>\$ 1,172,981</u>	<u>\$ 420,125</u>	<u>\$ 702,856</u>

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

**CITY OF PALACIOS, TEXAS**

*SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

*TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION*

*Last ten years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Total Pension Liability</b>			
Service cost	\$ 218,395	\$ 237,274	\$ 246,872
Interest (on the total pension liability)	346,962	357,969	375,955
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(222,073)	(4,265)	(12,388)
Change of assumptions	-	68,643	-
Benefit payments, including refunds of employee contributions	<u>(186,200)</u>	<u>(204,755)</u>	<u>(212,348)</u>
<b>Net Change in Total Pension Liability</b>	157,084	454,866	398,091
<b>Total Pension Liability - Beginning</b>	<u>4,940,499</u>	<u>5,097,583</u>	<u>5,552,449</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 5,097,583</u>	<u>\$ 5,552,449</u>	<u>\$ 5,950,540</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 216,636	\$ 241,493	\$ 231,331
Contributions - Employee	93,321	98,454	96,273
Net investment income	194,333	5,478	259,913
Benefit payments, including refunds of employee contributions	(186,200)	(204,755)	(212,348)
Administrative expense	(2,028)	(3,336)	(2,938)
Other	<u>(167)</u>	<u>(165)</u>	<u>(158)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	315,895	137,169	372,073
<b>Plan Fiduciary Net Position - Beginning</b>	<u>3,396,213</u>	<u>3,712,108</u>	<u>3,849,277</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 3,712,108</u>	<u>\$ 3,849,277</u>	<u>\$ 4,221,350</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 1,385,475</u>	<u>\$ 1,703,172</u>	<u>\$ 1,729,190</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	72.82%	69.33%	70.94%
<b>Covered Payroll</b>	\$ 1,333,150	\$ 1,406,483	\$ 1,375,334
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	103.92%	121.09%	125.73%

NOTE: Information for the prior six years was not readily available. The City will compile the respective information over the next six years as provided by TMRS on a "measurement date" basis.

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

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2017

\$ 247,758  
401,257  
-  
(234,294)  
-  
(259,746)  
154,975  
5,950,540  
\$ 6,105,515

\$ 248,464  
98,765  
584,460  
  
(259,746)  
(3,032)  
(154)  
  
668,757  
4,221,350  
\$ 4,890,107  
\$ 1,215,408

80.09%

\$ 1,410,923

86.14%

**CITY OF PALACIOS, TEXAS**  
*SCHEDULE OF EMPLOYER CONTRIBUTIONS*  
*TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION*  
*Last ten fiscal years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 229,252	\$ 228,157	\$ 234,494
Contribution in relation to the actuarially determined contribution	<u>(233,693)</u>	<u>(241,493)</u>	<u>(231,331)</u>
Contribution deficiency (excess)	<u>\$ (4,441)</u>	<u>\$ (13,336)</u>	<u>\$ 3,163</u>
Covered payroll	\$ 1,423,754	\$ 1,406,483	\$ 1,375,334
Contributions as a percentage of covered payroll	16.41%	17.17%	16.82%

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

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

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2018

\$ 245,910

(248,464)

\$ (2,554)

\$ 1,410,923

17.61%

**CITY OF PALACIOS, TEXAS**

*SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT  
 Last ten years*

---

	<u>Measurement Year</u>
	<u>2017</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 6,067
Interest (on the total OPEB liability)	3,438
Change of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	8,316
Benefit payments	<u>(705)</u>
<b>Net Change in Total OPEB Liability</b>	17,116
<b>Total OPEB Liability - Beginning</b>	<u>88,260</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 105,376</u>
<b>Covered Payroll</b>	\$ 1,410,923
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	7.47%

NOTE: Information for the prior nine years was not readily available. The City will compile the respective information over the next nine years as provided by TMRS on a "measurement date" basis.

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

**CITY OF PALACIOS, TEXAS**  
*SCHEDULE OF EMPLOYER CONTRIBUTIONS*  
*TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT*  
*Last ten fiscal years*

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	<u>Fiscal Year</u>
	<u>2018</u>
Actuarially Determined Contribution	\$ 691
Contribution in relation to the actuarially determined contribution	<u>(691)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	\$ 1,381,728
Contributions as a percentage of covered payroll	0.0500%

NOTE: Information for the prior nine years was not readily available. The City will compile the respective information over the next nine 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, 2018

**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.

The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Pavilion Restoration Fund. The activity of the fund is funded by the federal government, thereby no local control over appropriating funds is possible. Therefore, there is no requirement of presenting a budgetary comparison schedule.

**NOTE 2: BUDGETARY LEGAL COMPLIANCE**

For the year ended September 30, 2018, the City complied with budgetary restrictions at all departmental levels except the following. The following table details these variances:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
General government			
Elections	\$ 2,300	\$ 3,473	\$ 1,173
Corporation court	99,580	103,410	3,830
Public safety			
Fire department	45,000	78,291	33,291
Health and welfare			
Recycling center	16,550	34,809	18,259

**NOTE 3: DEFINED BENEFIT PENSION PLAN**

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**CITY OF PALACIOS, TEXAS**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*September 30, 2018*

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**NOTE 3: DEFINED BENEFIT PENSION PLAN - (Continued)**

Other Information

There were no benefit changes during the year.

**NOTE 4: SUPPLEMENTAL DEATH BENEFIT PLAN - OPEB**

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

There were no changes in plan provisions or assumptions during the year.

**Combining and Individual Fund Statements and Schedules**

**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF PALACIOS, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 2018**

	Special Revenue Funds			
	Hotel Motel Tax	TCDP Sewer Project	TDHCA Home Program	Court Technology
<b>ASSETS</b>				
Cash and cash equivalents	\$ 85,950	\$ -	\$ -	\$ 9,645
Receivables (net)				
Taxes	7,869	-	-	-
Due from other funds	-	-	-	-
<b>Total assets</b>	<u>\$ 93,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,645</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Due to other funds	6,700	62,357	1,275	-
Due to other governments	-	-	-	-
<b>Total liabilities</b>	<u>6,700</u>	<u>62,357</u>	<u>1,275</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	-	-	-	-
<b>Total deferred inflows of resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Restricted				
Public safety	-	-	-	-
Tourism	87,119	-	-	-
State and federal grant programs	-	-	-	-
Municipal court	-	-	-	9,645
Debt service	-	-	-	-
Unrestricted	-	(62,357)	(1,275)	-
<b>Total fund balances</b>	<u>87,119</u>	<u>(62,357)</u>	<u>(1,275)</u>	<u>9,645</u>
<b>Total liabilities and fund balances</b>	<u>\$ 93,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,645</u>

Special Revenue Funds

Court Security	Forfeiture Funds	Judicial Efficiency	Disaster Recovery	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 19,427	\$ 11,146	\$ 2,307	\$ 88,771	\$ 3,426	\$ 220,672
-	-	-	-	1,117	8,986
-	-	-	-	280	280
<u>\$ 19,427</u>	<u>\$ 11,146</u>	<u>\$ 2,307</u>	<u>\$ 88,771</u>	<u>\$ 4,823</u>	<u>\$ 229,938</u>
-	-	-	-	-	70,332
-	4,802	-	-	-	4,802
-	4,802	-	-	-	75,134
-	-	-	-	1,117	1,117
-	-	-	-	1,117	1,117
-	6,344	2,307	-	-	8,651
-	-	-	-	-	87,119
-	-	-	88,771	-	88,771
19,427	-	-	-	-	29,072
-	-	-	-	3,706	3,706
-	-	-	-	-	(63,632)
<u>19,427</u>	<u>6,344</u>	<u>2,307</u>	<u>88,771</u>	<u>3,706</u>	<u>153,687</u>
<u>\$ 19,427</u>	<u>\$ 11,146</u>	<u>\$ 2,307</u>	<u>\$ 88,771</u>	<u>\$ 4,823</u>	<u>\$ 229,938</u>

**CITY OF PALACIOS, TEXAS**

NONMAJOR GOVERNMENTAL FUNDS

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

For the year ended September 30, 2018

	Special Revenue Funds			
	Hotel Motel Tax	TCDP Sewer Project	TDHCA Home Program	Court Technology
<b>REVENUES</b>				
Taxes				
Hotel - motel tax	\$ 28,817	\$ -	\$ -	\$ -
Ad valorem taxes	-	-	-	-
Court fees	-	-	-	2,376
Intergovernmental	-	12,620	-	-
Investment income				
Interest	106	-	-	22
Miscellaneous	-	(780)	-	-
<b>Total revenues</b>	<u>28,923</u>	<u>11,840</u>	<u>-</u>	<u>2,398</u>
<b>EXPENDITURES</b>				
Current				
General government	22,250	-	-	11,173
Public works	-	74,197	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>22,250</u>	<u>74,197</u>	<u>-</u>	<u>11,173</u>
Excess (deficiency) of revenues over expenditures	6,673	(62,357)	-	(8,775)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(2,000)	-	-	-
<b>Total other financing sources (uses)</b>	<u>(2,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	4,673	(62,357)	-	(8,775)
Fund balances at beginning of year	<u>82,446</u>	<u>-</u>	<u>(1,275)</u>	<u>18,420</u>
<b>Fund balances at end of year</b>	<u>\$ 87,119</u>	<u>\$ (62,357)</u>	<u>\$ (1,275)</u>	<u>\$ 9,645</u>

Special Revenue Funds

Court Security	Forfeiture Funds	Judicial Efficiency	Disaster Recovery	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,817
-	-	-	-	23,655	23,655
1,794	-	134	-	-	4,304
-	-	-	-	-	12,620
23	8	3	-	43	205
-	-	-	223,495	-	222,715
<u>1,817</u>	<u>8</u>	<u>137</u>	<u>223,495</u>	<u>23,698</u>	<u>292,316</u>
-	-	-	5,468	-	38,891
-	-	-	74,500	-	148,697
-	-	-	-	89,000	89,000
-	-	-	-	20,030	20,030
<u>-</u>	<u>-</u>	<u>-</u>	<u>79,968</u>	<u>109,030</u>	<u>296,618</u>
1,817	8	137	143,527	(85,332)	(4,302)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
1,817	8	137	143,527	(85,332)	(6,302)
<u>17,610</u>	<u>6,336</u>	<u>2,170</u>	<u>(54,756)</u>	<u>89,038</u>	<u>159,989</u>
<u>\$ 19,427</u>	<u>\$ 6,344</u>	<u>\$ 2,307</u>	<u>\$ 88,771</u>	<u>\$ 3,706</u>	<u>\$ 153,687</u>

## 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 constitutional 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, 2018*  
*With comparative totals for September 30, 2017*

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 978,854	\$ 614,042
Receivables (net)		
Accounts	27,061	15,548
Taxes	329,865	297,565
Fines	85,402	88,549
Due from other governments	103,335	86,660
Due from other funds	149,261	87,389
Prepaid items	6,449	-
Inventory	6,133	6,292
<b>Total assets</b>	<u>\$ 1,686,360</u>	<u>\$ 1,196,045</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 50,858	\$ 35,122
Accrued expenses	46,974	45,714
Due to other funds	280	238
Due to other governments	-	21,783
<b>Total liabilities</b>	<u>98,112</u>	<u>102,857</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue	415,267	390,332
<b>Total deferred inflows of resources</b>	<u>415,267</u>	<u>390,332</u>
Fund balances		
Nonspendable	12,582	6,292
Unassigned	1,160,399	696,564
<b>Total fund balances</b>	<u>1,172,981</u>	<u>702,856</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,686,360</u>	<u>\$ 1,196,045</u>

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018		Variance	2017
	Final Budget	Actual	Positive (Negative)	Actual
<b>REVENUES</b>				
Ad valorem taxes				
Current and delinquent taxes	\$ 1,505,000	\$ 1,479,915	\$ (25,085)	\$ 1,435,130
Penalty and interest	50,000	35,758	(14,242)	35,159
Tax certificates, other fees	3,000	1,800	(1,200)	790
Total ad valorem taxes	<u>1,558,000</u>	<u>1,517,473</u>	<u>(40,527)</u>	<u>1,471,079</u>
Other taxes				
Sales tax	320,000	374,653	54,653	318,432
Property tax reduction sales tax	160,000	187,327	27,327	159,216
Franchise tax	155,000	162,091	7,091	147,156
Bingo tax	100	-	(100)	44
Mixed beverage tax	5,000	10,008	5,008	5,490
Total other taxes	<u>640,100</u>	<u>734,079</u>	<u>93,979</u>	<u>630,338</u>
Licenses and permits				
Building and moving permits	19,300	23,656	4,356	22,227
MH and RV license fees	8,000	7,585	(415)	8,230
Dog licenses	3,300	2,275	(1,025)	1,865
Total licenses and permits	<u>30,600</u>	<u>33,516</u>	<u>2,916</u>	<u>32,322</u>
Intergovernmental				
Grant proceeds	<u>35,200</u>	<u>71,336</u>	<u>36,136</u>	<u>164,397</u>
Charges for services				
Weedy lot mowing	500	136	(364)	-
Economic development	6,000	6,000	-	-
Total charges for services	<u>6,500</u>	<u>6,136</u>	<u>(364)</u>	<u>-</u>
Fines and forfeitures				
Fines and court costs	<u>95,000</u>	<u>79,799</u>	<u>(15,201)</u>	<u>123,355</u>
Investment income				
Interest	<u>4,000</u>	<u>11,852</u>	<u>7,852</u>	<u>4,663</u>
Miscellaneous				
Insurance reimbursement	30,000	24,658	(5,342)	30,373
Maintenance contract	50,000	50,000	-	50,000
Other	114,000	301,843	187,843	237,989
Total miscellaneous	<u>194,000</u>	<u>376,501</u>	<u>182,501</u>	<u>318,362</u>
<b>Total revenues</b>	<u>2,563,400</u>	<u>2,830,692</u>	<u>267,292</u>	<u>2,744,516</u>

(continued)

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018			2017
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES</b>				
<b>General government</b>				
Mayor and city council				
Salaries and wages	\$ 21,600	\$ 21,582	\$ 18	\$ 23,300
Office supplies	200	414	(214)	212
Special services	1,800	1,050	750	451
Travel, training, and dues	3,200	2,355	845	2,928
Social security tax	1,650	1,657	(7)	1,652
Employee benefits	100	47	53	52
Total mayor and city council	<u>28,550</u>	<u>27,105</u>	<u>1,445</u>	<u>28,595</u>
Elections				
Office supplies	1,500	-	1,500	1,969
Special services	800	3,473	(2,673)	3,441
Total elections	<u>2,300</u>	<u>3,473</u>	<u>(1,173)</u>	<u>5,410</u>
Administrative				
Salaries and wages	316,600	301,161	15,439	311,737
Office supplies	9,000	6,189	2,811	12,457
Maintenance - office equipment	29,000	25,404	3,596	23,312
Maintenance - buildings	6,000	2,303	3,697	1,966
Telephone	6,000	5,695	305	6,359
Electricity	3,300	3,781	(481)	4,297
Gas	480	485	(5)	486
Professional fees	53,500	51,697	1,803	48,639
Special services	5,000	12,652	(7,652)	2,987
Travel, training, and dues	9,500	8,783	717	7,426
Social security tax	24,200	22,144	2,056	23,281
Employee benefits	120,800	101,431	19,369	110,236
Total administrative	<u>583,380</u>	<u>541,725</u>	<u>41,655</u>	<u>553,183</u>
Legal				
Special services	<u>8,000</u>	<u>803</u>	<u>7,197</u>	<u>3,750</u>

(continued)

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018			2017
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>General government - (continued)</b>				
Corporation court				
Salaries and wages	\$ 69,680	\$ 70,359	\$ (679)	\$ 69,173
Office supplies	300	319	(19)	384
Maintenance - office equipment	5,600	6,068	(468)	5,543
Telephone	100	58	42	92
Special services	500	5,488	(4,988)	221
Travel, training, and dues	2,500	271	2,229	2,233
Social security tax	5,500	5,367	133	5,236
Employee benefits	15,400	15,480	(80)	14,180
Total corporation court	<u>99,580</u>	<u>103,410</u>	<u>(3,830)</u>	<u>97,062</u>
Library				
Special services	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total general government	<u>751,810</u>	<u>706,516</u>	<u>45,294</u>	<u>718,000</u>
<b>Public safety</b>				
Police department				
Salaries and wages	721,700	693,290	28,410	722,937
Minor tools	6,000	4,459	1,541	4,265
Office supplies	8,000	5,815	2,185	9,870
Clothing	3,000	1,401	1,599	1,680
Maintenance - buildings	800	-	800	-
Maintenance - radios/radar	29,760	33,092	(3,332)	29,110
Maintenance - office equipment	7,400	7,354	46	5,452
Telephone, electricity, and gas	15,280	16,598	(1,318)	17,789
Special services	1,500	5,729	(4,229)	673
Travel, training, and dues	6,600	2,164	4,436	4,650
Support of prisoners	500	433	67	122
Social security tax	56,000	50,842	5,158	53,779
Employee benefits	269,700	258,870	10,830	238,218
Capital outlay	-	-	-	103,498
Seizure misc expense	600	28,699	(28,099)	-
Total police department	<u>1,126,840</u>	<u>1,108,746</u>	<u>18,094</u>	<u>1,192,043</u>

(continued)

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018			2017
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>Public safety - (continued)</b>				
Fire department				
Supplies	\$ 10,500	\$ 11,088	\$ (588)	\$ 9,173
Maintenance - equipment	6,000	400	5,600	2,070
Telephone	1,000	499	501	453
Electricity	1,500	871	629	1,081
Gas	400	443	(43)	462
Special services	4,000	1,185	2,815	14,830
Employee benefits	21,600	35,995	(14,395)	20,959
Capital outlay	-	27,810	(27,810)	-
Total fire department	<u>45,000</u>	<u>78,291</u>	<u>(33,291)</u>	<u>49,028</u>
Total public safety	<u>1,171,840</u>	<u>1,187,037</u>	<u>(15,197)</u>	<u>1,241,071</u>
<b>Public works</b>				
Park maintenance				
Salaries	53,700	33,912	19,788	47,372
Tools and supplies	5,800	9,399	(3,599)	8,260
Chemicals	200	1,156	(956)	-
Reconstruction materials	5,700	8,970	(3,270)	37,598
Electricity	10,000	11,693	(1,693)	8,762
Special services	65,000	72,201	(7,201)	73,971
Pavilion expense	5,000	3,904	1,096	-
Employee benefit	32,600	17,523	15,077	25,859
Capital outlay	-	-	-	144,140
Total park maintenance	<u>178,000</u>	<u>158,758</u>	<u>19,242</u>	<u>345,962</u>

(continued)

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018			2017
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>Public works - (continued)</b>				
Streets				
Salaries and wages	\$ 63,500	\$ 35,572	\$ 27,928	\$ 34,479
Tools and supplies	3,000	6,686	(3,686)	9,390
Chemicals	1,600	1,463	137	355
Clothing	800	497	303	471
Reconstruction materials	47,100	25,489	21,611	48,879
Pipe and culverts	12,000	5,684	6,316	4,443
Electricity	40,000	44,711	(4,711)	44,327
Special services	15,000	3,858	11,142	85,109
Travel, training, and dues	-	70	(70)	-
Social security tax	4,900	2,640	2,260	2,661
Employee benefits	32,100	14,450	17,650	13,525
Capital outlay	50,000	7,285	42,715	206,647
Total streets	<u>270,000</u>	<u>148,405</u>	<u>121,595</u>	<u>450,286</u>
Total public works	<u>448,000</u>	<u>307,163</u>	<u>140,837</u>	<u>796,248</u>
<b>Health and welfare</b>				
Animal control				
Salaries	17,100	16,512	588	16,612
Supplies	3,900	2,455	1,445	1,918
Telephone	800	827	(27)	826
Electricity	1,200	1,422	(222)	1,499
Special services	1,000	1,170	(170)	640
Travel, training, and dues	1,000	274	726	689
Social security tax	1,400	1,301	99	1,236
Employee benefits	7,300	7,314	(14)	6,619
Total animal control	<u>33,700</u>	<u>31,275</u>	<u>2,425</u>	<u>30,039</u>
Recycling center				
Salaries and wages	9,500	12,594	(3,094)	8,677
Tools and supplies	1,700	1,572	128	2,217
Telephone	700	709	(9)	734
Electricity	800	923	(123)	805
Special services	600	16,113	(15,513)	3,885
Travel, training, and dues	800	342	458	591
Social security tax	750	957	(207)	653
Employee benefits	1,700	1,599	101	1,525
Total recycling center	<u>16,550</u>	<u>34,809</u>	<u>(18,259)</u>	<u>19,087</u>
Total health and welfare	<u>50,250</u>	<u>66,084</u>	<u>(15,834)</u>	<u>49,126</u>

(continued)

**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, 2018

With comparative totals for the year ended September 30, 2017

	2018		Variance Positive (Negative)	2017
	Final Budget	Actual		Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>Special services</b>				
Unemployment	\$ 3,000	\$ -	\$ 3,000	\$ -
Bayside	28,300	25,870	2,430	35,350
Hospital assistance	10,000	10,000	-	10,000
Mayors contingency	5,000	1,000	4,000	2,457
Insurance and bonds	84,500	102,211	(17,711)	89,262
Development agreement rebate	60,000	-	60,000	-
Community improvements	1,300	730	570	1,851
<b>Total special services</b>	<u>192,100</u>	<u>139,811</u>	<u>52,289</u>	<u>138,920</u>
<b>Total expenditures</b>	<u>2,614,000</u>	<u>2,406,611</u>	<u>207,389</u>	<u>2,943,365</u>
Excess (deficiency) of revenues over expenditures	(50,600)	424,081	474,681	(198,849)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	152,600	172,600	20,000	158,600
Transfers out	<u>(52,000)</u>	<u>(126,556)</u>	<u>(74,556)</u>	<u>(194,391)</u>
<b>Total other financing sources (uses)</b>	<u>100,600</u>	<u>46,044</u>	<u>(54,556)</u>	<u>(35,791)</u>
Net change in fund balance	50,000	470,125	420,125	(234,640)
Fund balance at beginning of year	<u>702,856</u>	<u>702,856</u>	-	<u>937,496</u>
<b>Fund balance at end of year</b>	<u>\$ 752,856</u>	<u>\$ 1,172,981</u>	<u>\$ 420,125</u>	<u>\$ 702,856</u>

(concluded)

## DEBT SERVICE FUND

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.

**CITY OF PALACIOS, TEXAS**

*NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND*

*SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE*

*BUDGET (GAAP BASIS) AND ACTUAL*

*For the year ended September 30, 2018*

*With comparative totals for the year ended September 30, 2017*

	2018		Variance Positive (Negative)	2017
	Final Budget	Actual		Actual
<b>REVENUES</b>				
Taxes				
Ad valorem	\$ 21,680	\$ 23,655	\$ 1,975	\$ 1,136
Investment income	200	43	(157)	179
<b>Total revenues</b>	<u>21,880</u>	<u>23,698</u>	<u>1,818</u>	<u>1,315</u>
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	89,000	89,000	-	-
Interest and fiscal charges	<u>20,530</u>	<u>20,030</u>	<u>500</u>	<u>-</u>
<b>Total expenditures</b>	<u>109,530</u>	<u>109,030</u>	<u>500</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(87,650)	(85,332)	2,318	1,315
Fund balance at beginning of year	<u>89,038</u>	<u>89,038</u>	<u>-</u>	<u>87,723</u>
<b>Fund balance at end of year</b>	<u>\$ 1,388</u>	<u>\$ 3,706</u>	<u>\$ 2,318</u>	<u>\$ 89,038</u>

## 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 the 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 this fund, 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**  
**BALANCE SHEET**  
*September 30, 2018*  
*With comparative totals for September 30, 2017*

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 482,380	\$ 362,727
Receivables		
Accounts	509,789	494,648
Other	518	429
Allowance for uncollectible accounts	(210,963)	(165,725)
Inventory	49,288	50,231
Total current assets	<u>831,012</u>	<u>742,310</u>
Noncurrent assets		
Capital assets		
Office equipment and furniture	47,715	47,715
Machinery and equipment	947,902	940,402
Service delivery system	23,335,695	22,969,507
Buildings and fixtures	3,453,260	3,445,718
Land structured facilities	760,184	760,184
Total capital assets	28,544,756	28,163,526
Accumulated depreciation	(11,981,470)	(11,301,674)
Subtotal	16,563,286	16,861,852
Land	8,129	8,129
Construction in progress	-	378,130
Net capital assets	<u>16,571,415</u>	<u>17,248,111</u>
Deferred expenses (net)	-	16,317
Total noncurrent capital assets	<u>16,571,415</u>	<u>17,264,428</u>
<b>Total assets</b>	<u>17,402,427</u>	<u>18,006,738</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow related to pension	35,564	74,698
Deferred outflow related to OPEB	1,773	512
<b>Total deferred outflows of resources</b>	<u>37,337</u>	<u>75,210</u>

(continued)

**CITY OF PALACIOS, TEXAS**  
**MAJOR ENTERPRISE FUND - WATER AND SEWER FUND**  
**BALANCE SHEET**  
*September 30, 2018*  
*With comparative totals for September 30, 2017*

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 66,063	\$ 74,540
Accrued expenses	15,451	9,742
Due to other funds	46,723	46,723
Accrued interest payable	13,319	14,069
Customer meter deposits	138,896	130,628
Accrued compensated absences	14,058	5,637
Current portion of payable to developer	50,000	50,000
Current portion of certificates of obligation	205,000	200,000
Current portion of notes payable	<u>82,767</u>	<u>88,234</u>
Total current liabilities	<u>632,277</u>	<u>619,573</u>
Noncurrent liabilities		
Net pension liability	243,081	345,832
OPEB liability	21,075	17,652
Payable to developer	679,102	753,657
Certificates of obligation	2,440,000	2,645,000
Notes payable	<u>85,457</u>	<u>176,468</u>
Total noncurrent liabilities	<u>3,468,715</u>	<u>3,938,609</u>
<b>Total liabilities</b>	<u>4,100,992</u>	<u>4,558,182</u>
 <b>DEFERRED INFLOWS OF RESOOURCES</b>		
Deferred inflow related to pension	<u>56,662</u>	<u>7,329</u>
 <b>NET POSITION</b>		
Net investment in capital assets	13,029,089	13,337,000
Unrestricted net position, as restated	<u>253,021</u>	<u>179,437</u>
<b>Total net position</b>	<u>\$ 13,282,110</u>	<u>\$ 13,516,437</u>

(concluded)

**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, 2018

With comparative totals for the year ended September 30, 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,641,176	\$ 1,624,369
<b>OPERATING EXPENSES</b>		
Water system	595,240	569,665
Sanitary sewer system	228,470	288,156
Miscellaneous	71,199	23,818
Depreciation	679,796	685,674
<b>Total operating expenses</b>	<u>1,574,705</u>	<u>1,567,313</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	66,471	57,056
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income		
Interest	2,468	1,227
Connection fees	6,455	7,510
Miscellaneous income (expense)	3,123	1,945
Interest and fiscal charges	(111,800)	(128,133)
<b>Total nonoperating revenues (expenses)</b>	<u>(99,754)</u>	<u>(117,451)</u>
Income (loss) before contributions and transfers	(33,283)	(60,395)
Contributions and transfers		
Capital contributions	-	325,930
Transfers out	(275,600)	(328,100)
Transfers in	74,556	112,391
Total contributions and transfers	<u>(201,044)</u>	<u>110,221</u>
Change in net position	(234,327)	49,826
Total net position at beginning of year, as restated	<u>13,516,437</u>	<u>13,466,611</u>
<b>Total net position at end of year</b>	<u>\$ 13,282,110</u>	<u>\$ 13,516,437</u>

**CITY OF PALACIOS, TEXAS**  
**MAJOR ENTERPRISE FUND - AIRPORT FUND**  
**BALANCE SHEET**  
*September 30, 2018*  
*With comparative totals for September 30, 2017*

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,986	\$ -
Accounts receivable	-	200
Inventory	11,700	20,384
<b>Total current assets</b>	<u>17,686</u>	<u>20,584</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	98,707	85,462
Buildings and fixtures	66,479	66,479
Land structured facilities	1,581,337	1,581,337
<b>Total capital assets</b>	<u>1,746,523</u>	<u>1,733,278</u>
Accumulated depreciation	(614,634)	(570,009)
<b>Net noncurrent assets</b>	<u>1,131,889</u>	<u>1,163,269</u>
<b>Total assets</b>	<u>1,149,575</u>	<u>1,183,853</u>
<b>LIABILITIES</b>		
Accounts payable	14,060	1,171
Due to other funds	-	6,671
<b>Total liabilities</b>	<u>14,060</u>	<u>7,842</u>
<b>NET POSITION</b>		
Invested in capital assets	1,131,889	1,163,269
Unrestricted	3,626	12,742
<b>Total net position</b>	<u>\$ 1,135,515</u>	<u>\$ 1,176,011</u>

**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, 2018**With comparative totals for the year ended September 30, 2017*

---

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 12,407	\$ 9,915
Rental income	12,492	13,771
<b>Total operating revenues</b>	<u>24,899</u>	<u>23,686</u>
<b>OPERATING EXPENSES</b>		
Airport expenses		
Supplies	17,663	12,883
Repairs and maintenance	3,169	10,443
Utilities	7,565	7,391
Insurance and bonds	15,338	14,753
Special items	3,965	9,931
Depreciation	<u>44,625</u>	<u>46,139</u>
<b>Total operating expenses</b>	<u>92,325</u>	<u>101,540</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	(67,426)	(77,854)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income		
Interest	58	19
Miscellaneous income (expense)	3,135	13,329
Nonoperating lease income	<u>23,737</u>	<u>23,737</u>
<b>Total nonoperating revenues (expenses)</b>	<u>26,930</u>	<u>37,085</u>
Change in net position	(40,496)	(40,769)
Total net position at beginning of year	<u>1,176,011</u>	<u>1,216,780</u>
<b>Total net position at end of year</b>	<u>\$ 1,135,515</u>	<u>\$ 1,176,011</u>

**OVERALL COMPLIANCE AND INTERNAL  
CONTROL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS  
101 S. MAIN, SUITE 400  
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA  
DENNIS C. CIHAL, CPA  
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**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***

The Honorable Mayor and Members  
of the City Council  
City of Palacios, Texas

Mayor and Members of Council:

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palacios, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 2019. The financial statements of the Palacios Economic Development Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's 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 consolidated 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.

The Honorable Mayor and Members  
of the City Council  
City of Palacios, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

August 23, 2019

## FINANCIAL ADVISORY SERVICES AGREEMENT

This Financial Advisory Services Agreement (the "Agreement") is made and entered into by and between the City of Palacios, Texas ("Issuer") and Specialized Public Finance Inc. ("SPFI") effective as of the date executed by the Issuer as set forth on the signature page hereof.

### WITNESSETH:

WHEREAS, the Issuer will have under consideration from time to time the authorization and issuance of indebtedness in amounts and forms which cannot presently be determined and, in connection with the authorization, sale, issuance and delivery of such indebtedness, Issuer desires to retain an independent financial advisor; and

WHEREAS, the Issuer desires to obtain the professional services of SPFI to advise the Issuer regarding the issuance and sale of certain evidences of indebtedness or debt obligations that may be authorized and issued or otherwise created or assumed by the Issuer (hereafter referred to collectively as "Debt") from time to time during the period in which this Agreement shall be effective; and

WHEREAS, SPFI is willing to provide its professional services and its facilities as financial advisor in connection with all programs of financing as may be considered and authorized by Issuer during the period in which this Agreement shall be effective.

NOW, THEREFORE, the Issuer and SPFI, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, do hereby agree as follows:

### SECTION I

#### DESCRIPTION OF SERVICES

Upon the request of the Issuer, SPFI agrees to perform the financial advisory services stated in the following provisions of this Section I; and for having rendered such services, the Issuer agrees to pay to SPFI the compensation as provided in Section VI hereof.

1. Financial Planning. Provide financial planning services related to Debt plans and programs.
2. Debt Elements. Provide recommendations regarding Debt under consideration, including such elements as timing, structure, security provisions, and such other provisions as may be appropriate.
3. Method of Sale. Make a recommendation as to an appropriate method of sale, including but not limited to competitive sale, negotiated sale or private/limited offering.
4. Price Fairness. Advise the Issuer as to the fairness of the price offered by the underwriters.

5. Offering Documents. Participate in and direct, as appropriate, the preparation of the offering documents and/or assist bond counsel with same.
6. Auditors. Coordinate verification by an independent auditor of any calculations incident to the Debt, as required.
7. Printing. Coordinate all work incident to printing of the offering documents and other documents required by Issuer.
8. Closing. Provide the Issuer a post sale/closing booklet or update for the Debt and other outstanding debt, as needed.

## **SECTION II OTHER AVAILABLE SERVICES**

In addition to the services set forth and described in Section I herein above, SPFI agrees to make available to the Issuer the following services, when so requested by the Issuer and subject to the agreement by Issuer and SPFI regarding the compensation, if any, to be paid for such services, it being understood and agreed that the services set forth in this Section II may require further agreement as to the compensation to be received by SPFI for such services:

1. Call Defeasance and Refunding. Evaluate and advise on exercising any call defeasance and/or refunding of any outstanding Debt.
2. Capital Program Modeling. Evaluate and advise on the development of any capital improvements programs.

## **SECTION III CONTINUING DISCLOSURE**

It is understood and agreed that the Issuer, in connection with the sale and delivery of Debt, will be required to comply with certain continuing disclosure undertakings, including preparation and submission of annual reports (the “annual reports”) and reporting of certain specified material events (the “material events”) pursuant written undertakings of the Issuer and in accordance with the provisions of Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”). SPFI shall provide continuing disclosure services on the terms and conditions, for the time period and for the compensation set forth herein.

1. This Agreement shall apply to all Debt delivered subsequent to the effective date of the continuing disclosure undertakings of Issuer and as specified in the Rule, to the extent that any particular issue of Debt does not qualify for exceptions to the continuing disclosure requirements of the Rule.
2. SPFI agrees to perform annual reporting and material event notification duties required by the undertakings of Issuer and the Rule at a flat rate of \$350.00 per material event filing.
3. The fees of SPFI for providing the foregoing continuing disclosure services shall be negotiated annually (not to exceed \$1,500 per similarly-secured type of Debt). The fees of SPFI for providing material event notification services shall be negotiated separately at the time such notifications may be required.

#### **SECTION IV TERM OF AGREEMENT**

This Agreement shall become effective as of the date executed by the Issuer as set forth on the signature page hereof and, unless terminated by either party pursuant to Section V of this Agreement, shall remain in effect thereafter for a period of three (3) years from such date. Unless SPFI or Issuer shall notify the other party in writing at least thirty (30) days in advance of the applicable anniversary date that this Agreement will not be renewed, this Agreement will automatically renew on the third anniversary of the date hereof for an additional one (1) year period and thereafter will automatically renew on each anniversary date for successive one (1) year periods under the same terms as the initial 3 year period.

#### **SECTION V TERMINATION**

This Agreement may be terminated with or without cause by the Issuer or SPFI upon the giving of at least thirty (30) days' prior written notice to the other party of its intention to terminate. In the event of such termination, it is understood and agreed that only the amounts due SPFI for services provided and expenses incurred to the date of termination will be due and payable. No penalty will be assessed for termination of this Agreement.

#### **SECTION VI COMPENSATION AND EXPENSE REIMBURSEMENT**

The fees due to SPFI for the services set forth and described in Section I of this Agreement with respect to each issuance of Debt during the term of this Agreement shall be calculated in accordance with the schedule set forth on Appendix A attached hereto. Unless specifically provided otherwise on Appendix A or in a separate written agreement between Issuer and SPFI, such fees, together with any other fees as may have been mutually agreed upon and all expenses for which SPFI is entitled to reimbursement, shall become due and payable concurrently with the delivery of the Debt to the purchaser.

**SECTION VII  
MISCELLANEOUS**

1. Choice of Law; Form ADV. This Agreement shall be construed and given effect in accordance with the laws of the State of Texas. Proper venue for any legal action arising out of this Agreement shall be Travis County, Texas. Issuer acknowledges receipt of SPFI Form ADV.
  
2. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Issuer and SPFI, their respective heirs, executors, personal representatives, successors and assigns; provided however, neither party hereto may assign or transfer any of its rights or obligations hereunder without the prior written consent of the other party.
  
3. Anti-Boycott Verification. Pursuant to Texas Government Code Section 2270.002, the SPFI certifies that it does not boycott Israel and will not boycott Israel during the term of the contract.
  
4. Entire Agreement. This instrument contains the entire agreement between the parties relating to the rights herein granted and obligations herein assumed. Any oral or written representations or modifications concerning this Agreement shall be of no force or effect except for a subsequent modification in writing signed by all parties hereto.

Specialized Public Finance Inc.

By: \_\_\_\_\_  
Victor Quiroga, Jr.  
Managing Director

City of Palacios, Texas

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Title

## APPENDIX A

Fee Schedule:

	(\$10,000	for the first	\$ 1,000,000	of bonds issued
plus \$5.00	per \$1,000	for the next	\$ 4,000,000	of bonds issued
plus \$4.00	per \$1,000	for the next	\$ 5,000,000	of bonds issued
plus \$3.00	per \$1,000	for the next	\$ 5,000,000	of bonds issued
plus \$2.00	per \$1,000	for the next	\$ 5,000,000	of bonds issued
plus \$1.00	per \$1,000	thereafter		

Fee shall be based on the higher of par amount, project fund deposit or refunded bond amount. The above charges shall be multiplied by 1.25 times for the completion of an application to a federal or state government agency or for the issuance of revenue bonds or refunding bonds, reflecting the additional services required.

The charges for ancillary services, including computer structuring and official statement printing, shall be levied only for those services which are reasonably necessary in completing the transaction and which are reasonable in amount, unless such charges were incurred at the specified direction of the Issuer.

*The payment of charges for financial advisory services in Section I of the foregoing Agreement shall be contingent upon the delivery of bonds and shall be due at the time that bonds are delivered. The payment of charges for services described in Section II of the foregoing Agreement shall be due and payable in accordance with the mutual agreement therefor between SPFI and Issuer.*

The Issuer shall be responsible for the following expenses, if and when applicable:

- Bond counsel
- Bond ratings
- Computer structuring (pursuant to SPFI internal fee schedule)
- Continuing Disclosure, as per Section III
- Credit enhancement
- Verification agent
- Official statement preparation
- Official statement printing and distribution
- Paying agent/registrar/trustee
- Travel related expenses (mileage, airfare, hotel, etc.) as requested
- Underwriter and underwriters' counsel
- Delivery, copy, conference call charges and other miscellaneous charges

*The payment of reimbursable expenses that SPFI has assumed on behalf of the Issuer shall NOT be contingent upon the delivery of bonds and shall be due at the time that services are rendered and payable upon receipt of an invoice therefor submitted by SPFI.*



GLEN SMITH – Mayor  
 JOHNNY TRAN – Councilmember Place 1  
 DONNA HARVEY SCHULMAN – Councilmember Place 2  
 MARY CROCKER – Councilmember Place 3  
 TROY LEWIS – Councilmember Place 4  
 WAYNE DODD – Councilmember Place 5  
 STEPHEN MCGOVERN – Councilmember Place 6

**CITY OF PALACIOS  
 CITY COUNCIL REGULAR MEETING MINUTES  
 August 13, 2019**

**REGULAR COUNCIL MEETING 7PM**

**CALL TO ORDER** – Mayor Glen Smith at 7:00 pm  
**INVOCATION** – Councilmember Dodd  
**PLEDGE OF ALLEGIANCE** – Councilmember Tran  
**PLEDGE TO TEXAS FLAG** – Councilmember Tran  
**PLEDGE TO PALACIOS FLAG** – Councilmember Tran

**VISITOR / CITIZEN FORUM**

1. Patricia Loving was concerned about the condition her street was left after repairs were made.
2. Chip Woolf presented Council with his analysis of the City's proposed budget.
3. Larry Glenn thanked the Mayor and Council for new culverts in Foley Addition.

**ADMINISTRATIVE REPORTS**

1. Update on Downtown Revitalization Project – Council was provided with a copy of a letter regarding the status of the project
2. Update on the 2018-2019 Fiscal Year Audit – Treasurer, Tammy McDonald reported to Mayor Smith and Council that the auditing firm should be at the next council meeting to present the audit.
3. Bid packets for the TXCDBG Grant (hospital equipment) will be opened at 2pm on Friday, August 23, 2019 at City Hall.
4. The Palacios Library Board Annual Open House is Tuesday, August 20, 2019 at 6pm
5. The Regatta has been cancelled for this weekend.

**ITEMS TO BE CONSIDERED**

1. Discuss and consider adopting Resolution 2019-R-15 authorizing the submission of a CDBG-DR application to the Texas GLO and authorizing Mayor Glen Smith to act as the city's executive officer and authorized representative in all matters pertaining to the city's participation

in the CDBG-DR Program.

Councilmember McGovern motioned to adopt Resolution 2019-R-15 authorizing the submission of a CDBG-DR application to the Texas GLO and authorizing Mayor Glen Smith to act as the city's executive officer and authorized representative in all matters pertaining to the city's participation in the CDBG-DR program.

Councilmember Dodd seconded

There was no opposition

With no opposition, the motion was carried

2. Discuss and consider adopting Resolution 2019-R-16 finding that AEP Texas Inc.'s requested increase to its electric transmission and distribution rates and charges within the city should be denied

Councilmember Tran motioned to adopt Resolution 2019-R-16 finding that AEP Texas Inc.'s requested increase to its electric transmission and distribution rates and charges within the city should be denied

Councilmember Dodd seconded

There was no opposition

With no opposition, the motion was carried

3. Discuss and consider declaring property owned by the City of Palacios located at 312 Main Street as unneeded and surplus property; directing the administration to schedule a date to receive sealed bids for the sale of the property; and authorizing the administration to prepare and publish the necessary notices.

Councilmember McGovern motioned to declare property owned by the City of Palacios located at 312 Main Street as unneeded and surplus property; directing the administration to schedule a date to receive sealed bids for the sale of the property; and authorizing the administration to prepare and publish the necessary notices.

Councilmember Lewis seconded

There was no opposition

With no opposition, the motion was carried

4. Discuss and consider action to approve the following consent agenda items:

Minutes of the July 23, 2019 Regular Council Meeting

Minutes of the August 6, 2019 Special Council Meeting

Approve the absence of Councilmember Tran and Councilmember Schulman from the August 6, 2019 special council meeting

Councilmember Dodd motioned to approved the minutes of the July 23, 2019 regular council meeting, the minutes of the August 6, 2019 special council meeting, and approve the absence of Councilmember Tran and Councilmember Schulman from the August 6, 2019 special council meeting

Councilmember McGovern seconded

There was no opposition

With no opposition, the motion was carried

**EXECUTIVE SESSION** - Council adjourned at 7:18 pm for Executive Session

In accordance with Chapter 551, Government Code, (Open Meetings Law) the Council May go into Executive (closed) session in order to:

Consult with its attorney (551.071)

Discuss Real Estate transaction (551.072)

Deliberation regarding prospective gifts or donation (551.073)  
Discuss personnel matters (551.074)  
Deliberation regarding security devices (551.076)  
Discuss economic development negotiations (551.087) – Mike Ferdinand to discuss economic development project

**Council reconvened at 7:37 pm from Executive Session**

**ACTION ON EXECUTIVE SESSION:** Council appointed a sub-committee (Councilmembers McGovern, Crocker, and Schulman) to work with the PEDC on a project.

**ADJOURN**

Councilmember Tran motioned to adjourn the meeting at 7:37 pm  
Councilmember Crocker seconded  
There was no opposition  
With no opposition, the motion carried

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Glen Smith, Mayor

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Clissa Mills, City Secretary