

ANNUAL FINANCIAL REPORT

CITY OF PALMVIEW

SEPTEMBER 30, 2015

**CITY OF PALMVIEW, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2015**

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MEMBER OF TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

913 E HARRISON AVE., SUITE 18
HARLINGEN, TX 78550

MEMBER OF AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

PHONE: 956-425-9020 FAX: 956-425-9077
EMAIL: roberto.lopez@robertolopezcpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
The Board of Aldermen/Alderwomen
Palmview, Texas 78572

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The City of Palmview has not established a property control ledger for its capital assets or performed physical inventories of capital assets. Consequently, we were not able to determine the historical cost of capital assets in the governmental activities prior to October 1 2008. Without historical costs, the depreciation of capital assets in the governmental activities is only an estimate. Furthermore, as discussed in Note 1, the City estimated depreciation expense and related accumulated depreciation on prior acquired capital assets and recorded depreciation on current year additions based on useful lives of the capital assets in the government activities. Accounting principles generally accepted in the United States of America require that these capital assets be depreciated, which would decrease the assets and net assets and increase expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities listed above is not reasonably determinable.

Opinions

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palmview, Texas , as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As disclosed in Note 11 to the financial statements, City of Palmview, Texas adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 37 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palmview, Texas's basic financial statements. The other supplementary information on pages 44 and 45 are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applies in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements

themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 01, 2016, on our consideration of the City of Palmview, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Palmview, Texas's internal control over financial reporting and compliance.

Roberto Lopez CPA PC
Harlingen, Texas

February 01, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Palmview we offer the City of Palmview's financial statement readers, this narrative overview and analysis of the City's financial performance for the fiscal year ended September 30, 2015. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$ 3,174,197 (net position).
- The City's total net position decrease by \$ 786,423. Total revenues reflect a decrease of 23.8 % when compared to prior year. Expenses increased by 15.8%.
- At the end of the current fiscal year, fund balance for the general fund was a surplus of \$285,761, as compared to \$453,643 from the prior year restated balance.
- The City of Palmview's total long term debt increased by \$1,179,771 or an estimated 26.78% during the current fiscal year.
- Effective for fiscal year 2015, the City implemented a change in accounting principles related to pensions. As a result, the City recognized the pension obligation and a corresponding reduction in net position of \$306,178 at the beginning of the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The *statement of activities* presents information showing how the government's net assets 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 taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Palmview 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 cost through user fees and charges (business-type activities). The governmental activities of the City of Palmview include general government, public safety, and culture and recreation. The City of Palmview does not have business-type activities.

The government-wide financial statements include not only the City of Palmview itself (known as the primary government), but also legally separate component unit for which the City of Palmview is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-11 of this report.

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 of Palmview, 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 of Palmview can be divided into one category: governmental fund

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Palmview maintains two 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 the debt service fund, which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Notes to the 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 the financial statements can be found on pages 16-33 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the City of Palmview adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 34-36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Palmview, assets exceeded liabilities by \$3,174,197 at the close of the most recent fiscal year.

	Governmental Activities 2015	Governmental Activities 2014
Current other assets	\$ 1,504,046	\$ 1,538,347
Capital assets	<u>7,255,274</u>	<u>6,799,907</u>
Total assets	<u>8,759,320</u>	<u>8,365,973</u>
Long-term liabilities outstanding	4,531,027	4,024,630
Other liabilities	<u>1,054,096</u>	<u>380,722</u>
Total liabilities	<u>5,585,123</u>	<u>4,405,352</u>
Net Assets:		
Invested in Capital assets net of related debt	3,941,542	3,835,093
Restricted		
Unrestricted	<u>(767,345)</u>	<u>125,528</u>
Total net assets	<u>\$ 3,174,197</u>	<u>\$ 3,960,621</u>

By far the largest portion of the City's net assets (\$3,941,542) reflects its investments in capital assets (e.g., land, buildings, furniture, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Palmview uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Palmview'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.

An additional portion of the City of Palmview's net assets are a deficit of (\$767,345).

Analysis of Changes in Net Positon

The following table summarizes the changes in the City's net assets from its activities for the fiscal year ended September 30, 2015.

TABLE 2
Changes in Net Positon

	Governmental Activities 2015	Governmental Activities 2014
Revenues:		
Program Revenues:		
Charges for services	\$ 1,659,624	\$ 1,685,576
Operating grants and contributions	687,069	661,166
General Revenues:		
Property taxes	1,234,575	986,855
Sales taxes	794,449	801,946
Franchise taxes	299,154	166,311
Interest earned	22	472
Miscellaneous	192,913	125,344
Transferred in		1,966,380
Total Revenue and Other Sources	\$ 4,867,804	\$ 6,394,050
Expenses:		
General Government	2,115,920	1,818,556
Public Safety	2,407,749	2,263,729
Highway and Streets	339,803	238,207
Curlture and Recreation	224,642	250,391
Debt Service	196,861	33,940
Pension expense	39,169	
Total Expenses	5,324,142	4,604,825
Increase (decrease) in net assets	(456,339)	1,789,224
Beginning Net Assets	3,960,620	2,168,780
Prior period adjustment	(330,084)	2,616
Ending Net Position	\$ 3,174,197	\$ 3,960,620

The revenues generated were \$4,867,804 reflecting a decrease of \$1,526,246 or an estimated 23.8% decrease compared to last year. Expenses were \$5,324,142 thus decreasing net assets by \$ 456,339.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City of Palmview's governmental funds reported combined ending fund balances of \$285,761, in comparison with prior year balance of \$453,643.

The Debt Service Fund has a total fund balance of (\$102,275), all which is reserved for the payment of debt service.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year the City Council amended the original budget. The major differences can be briefly summarized as follows:

- The most significant positive revenue variances are reflected in property, sales, franchise, charges for services and miscellaneous revenue. Fines revenues reflect the most significant negative variance.
- Total actual expenditures exceed budgeted expenditures in the year by \$484,065. The most significant expenditures exceeding the budgeted expenditures were debt service \$185,874 and public service by \$276,465.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2015, the City had \$7,255,274 million, net of depreciation, invested in a broad range of capital assets, including police and fire equipment, facilities, land, vehicles, and equipment. More detailed information about the City's capital assets is presented in the notes to the financial statements.

TABLE 3
Capital Assets at Year-end

	<u>2015</u>	<u>2014</u>
Land	\$ 506,971	\$ 506,971
Buildings	4,717,825	4,837,482
Furniture and Equipment	1,780,633	1,182,375
Infrastructure	<u>249,845</u>	<u>273,079</u>
	<u>\$ 7,255,274</u>	<u>\$ 6,799,908</u>

Debt

At year-end, the City had outstanding long-term obligations of \$4,570,100 million, an increase of approximately \$545,470 over the prior year. The table below reflects the outstanding debt at September 30th. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements. The 2008A bond issue was a private placement and it does not have a bond rating.

TABLE 4
Outstanding Debt at Year-end

	2015	2014
Bonds payable	\$ 979,379	\$ 1,030,070
Notes payable	2,042,341	2,176,608
Capital leases	942,014	187,048
Relending	606,366	630,904
	<u>\$ 4,570,100</u>	<u>\$ 4,024,630</u>

ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS AND RATES

- Appraisal values used in preparing the 2016 budget were up \$156,741 or .565% from prior year.
- The 2016 Budget decrease was prepared using an adopted tax rate of \$.4751 per \$100 valuation, which is a \$0.0039 increase from last year's rate of \$.4790 per \$100 valuation.
- The 2015 General Fund operating budget was prepared estimating a balanced budget at September 30, 2014. The actual unreserved fund balance for the general fund was a surplus of \$186,378.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's administration office, at:

City of Palmview
403 W. Veterans Blvd.
Palmview, Texas 78572

BASIC FINANCIAL STATEMENTS

**CITY OF PALMVIEW
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	Governmental Activities	Component Unit Municipal Development District
ASSETS		
Cash and cash equivalents	\$ 403,704	338,606
Receivables, net	523,123	-
Accrued Interest receivable	35,345	-
Note receivable Long-term, net	485,890	-
Capital assets:		-
Land	506,971	-
Infrastructure, net	249,845	91,944
Buildings, net	4,717,825	-
Furniture and equipment, net	1,780,633	-
TOTAL ASSETS	8,703,336	430,550
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on debt refunding	25,742	-
Deferred outflow related to TMRS	30,242	-
Total deferred outflows of resources	55,984	
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
	\$ 8,759,320	\$ 430,550
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ 277,511	39,808
Accrued liabilities	261,983	-
Accrued interest payable	112,851	-
Other current liabilities	20,000	-
Non-current liabilities		-
Due within one year	381,062	-
Due in more than one year	4,189,038	-
Net pension liability (City's share)	341,989	-
Total liabilities	\$ 5,584,434	\$ 39,808
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to TMRS	689	-
Total deferred inflow of resources	689	
NET POSITION		
Investments in capital assets, net of related debt Restricted	\$ 3,941,542	\$ -
Debt service	(101,441)	-
Unrestricted (deficit)	(665,904)	390,742
Total net assets	3,174,197	390,742
TOTAL LIABILITIES AND NET POSITION		
	\$ 8,759,320	\$ 430,550

The notes to the financial statements are an integral part of this statement.

**CITY OF PALMVIEW
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	Component Unit Municipal Development District
Governmental Activities:					
General Government	2,115,920	995,123		(1,120,797)	
Public Safety	2,407,749	664,501	687,069	(1,056,179)	
Highway and streets	339,803			(339,803)	
Culture and recreation	224,642			(224,642)	
Interest on long-term debt	196,861			(196,861)	
Pension expense	39,169			(39,169)	
Total Primary government	\$ 5,324,143	\$ 1,659,624	\$ 687,069	\$ (2,977,450)	
Component Unit					
MDD	\$ 94,040	\$ -	\$ -		\$ (41,904)
	\$ 94,040	\$ -	\$ -		\$ (41,904)
General revenues:					
Taxes:					
1130457+		Property taxes levied for general purpose		1,110,038	
		Property taxes levied for debt service		124,537	
		Sales taxes		794,449	353,104
		Franchise taxes		299,154	
		Interest earned		22	
		Miscellaneous		192,912	
2521111		Total general revenues		2,521,111	353,104
		Change in net assets		(456,340)	311,200
		Net Position - Beginning		3,960,620	79,542
		Prior period adjustment		(23,906)	-
		Prior period adjustment required by GASB 68		(306,178)	
		Net Position - Beginning - as restated		3,630,536	79,542
		Net Position - Ending		\$ 3,174,197	\$ 390,742

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

**CITY OF PALMVIEW
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2015**

	General Fund	Debt Service Fund	Relending Economic Development	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 191,692	\$ 7,599.68	\$ 204,412	\$ 403,704
Taxes receivables, net	206,323	48,001		254,324
Due from other funds	106,319			106,319
Other receivables	108,972	-	-	108,972
Due from other governments	159,826	-		159,826
Total assets	\$ 773,133	\$ 55,601	\$ 204,412	\$ 1,033,146
LIABILITIES				
Accounts payable	\$ 277,511	\$ -	\$ -	277,511
Interest payable	-	-	2,754	2,754
Due to other funds	-	106,319	-	106,319
Due to component units	-	-	-	-
Accrued liabilities	75,639	-	-	75,639
Other current liabilities	20,000	-	-	20,000
Total liabilities	373,150	106,319	2,754	482,223
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	213,605	51,557	-	265,162
Total deferred inflows of resources	213,605	51,557	-	265,162
Fund Balances				
Committed		(102,275)		(102,275)
Unassigned (deficit)	186,378		201,658	388,036
Total net assets	186,378	(102,275)	201,658	285,761
Total liabilities, Deferred Inflows of resources and fund balances	\$ 773,133	\$ 55,601	\$ 204,412	\$ 1,033,146

The notes to the financial statements are an integral part of this statement.

**CITY OF PALMVIEW
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

Total Fund Balances - Governmental Funds Balance Sheet	\$ 285,761
Amounts reported for governmental activities in the statement of net position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	7,255,274
Property taxes receivables unavailable to pay for current period expenditures are deferred in the funds.	265,161
Payables for bonds principal which are not due in the current period are not reported in the funds.	(979,379)
Payables for notes principal which are not due in the current period are not reported in the funds.	(2,042,341)
Payable for capital leases principal which are not due in the current period are not reported in the funds.	(942,014)
Payables for notes principal which are not due in the current period are not reported in the funds.	(606,366)
Unamortized issuance cost unavailable for current-period expenditures are deferred in the SNP.	25,741
Compensated absences that are not due in the current period are not reported in the funds.	(186,344)
Notes receivable principal which are not due in the current period are not reported in the funds.	521,236
Payable for long term debt interest which are not due in the current period are not reported in fund	(110,097)
Liability for pension obligation is not reported in the funds	(341,989)
Deferred outflows of resources related to pension is not reported in the funds	30,242
Deferred inflows of resources related to pension is not reported in the funds	<u>(689)</u>
Net Assets of Governmental Activities - Statement of Net Position	<u>\$ 3,174,197</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PALMVIEW
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2015**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Relending Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes and special assessments	\$ 2,224,060	\$ 124,537	\$ -	\$ 2,348,598
Licenses and permits	80,810	-	-	80,810
Intergovernmental revenue and grants	687,069	-	-	687,069
Charges for services	914,313	-	-	914,313
Fines	660,663	-	-	660,663
Interest	22	-	-	22
Miscellaneous	167,997	-	114,345	282,342
Total revenues	<u>4,734,933</u>	<u>124,537</u>	<u>114,345</u>	<u>4,973,816</u>
Expenditures				
Current				
General government	1,958,553	-	35	1,958,588
Public safety	2,146,209	-	-	2,146,209
Highway and streets	341,182	-	-	341,182
Culture and recreation	225,588	-	-	225,588
Capital outlay	138,453	-	-	138,453
Debt service				
Principal	62,061	50,899	24,541	137,501
Interest and fiscal charges	89,493	74,473	6,307	170,273
Total expenditures	<u>4,961,538</u>	<u>125,372</u>	<u>30,883</u>	<u>5,117,793</u>
Excess (deficiency) of revenues over (under) expenditures	(226,605)	(834)	83,462	(143,977)
Fund balance, beginning of year	436,889	(101,441)	118,196	453,644
Prior period adjustments	(23,906)	-	-	(23,906)
Fund balance, beginning of year - restated	<u>412,983</u>	<u>(101,441)</u>	<u>118,196</u>	<u>429,738</u>
Fund balance, end of year	<u>\$ 186,378</u>	<u>\$ (102,275)</u>	<u>\$ 201,658</u>	<u>\$ 285,761</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PALMVIEW
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

Total Net Change in Fund Balances - Governmental Funds \$ (143,977)

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

Capital outlays are not reported as expenses in the SOA.	66,090
The depreciation of capital assets used in governmental activities is not reported in the funds.	(346,058)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(20,420)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA	50,691
Repayment of notes principal is an expenditure in the funds but is not an expense in the SOA	132,584
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(1,978)
Compensated absences' is an expenditure in the SOA but not in the funds.	(63,344)
(Increase) decrease in accrued interest from beginning of period to end of period.	(34,239)
Change in pension obligation and deferred outflows related to pensions are not reported in the SOA	(6,259)
Collection of notes receivables is revenue in the funds but not in the SOA	(89,430)
Change in Net Assets of Governmental Activities - Statement of Activities	<u>(456,340)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Palmview (the "City") was incorporated on April 15, 1972, under Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Mayor-Board of Aldermen form of government and provides the following services as authorized by its charter. The services include public safety (police and fire), culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

A. Reporting Entity

The Board of Aldermen (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The accompanying financial statements include financial statements for related organizations in accordance with GASB Statement No. 14, The Financial Reporting Entity and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. The City does not have any blended component units. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize its legal separateness from the City.

Discretely Presented Component Unit

The Palmview Municipal Development District (MDD) was organized on behalf of the City of Palmview for the specific public purpose of the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare. The MDD is governed by seven (7) directors, residents of the District and are appointed by the City Council. The primary source of revenue is sales tax restricted by State statute that allows for this type of tax and by the City general election that adopted this sales tax. Exercise of all powers to affect the purposes of the corporation is subject at all times to the control of the Palmview Board of Directors of the MDD, and are also subject to oversight by the Palmview City Council. The MDD was incorporated during the fiscal year ending September 30, 2014. This component unit issues separate financial statements.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. 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 the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The City did not have proprietary or fiduciary funds at year-end.

C. 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. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported only in the governmental activities column of the government-wide financial statements. Compensated absences vested or accumulated are only reported in the governmental funds only if they have matured, in accordance with the provisions of Governmental Accounting Standards.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation - (Continued)

Those revenues susceptible to accrual are property taxes, franchise taxes, interest revenue of the current fiscal period and charges for services. Sales taxes collected and held by the intermediary collecting governments at year-end on behalf of the City also are recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government'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 can legally invest in adequately secured investments in accordance with the Public Funds Investment Act.

2. Receivables and payables

Lending/borrowing between funds that results in amounts outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds". "Due to/from other funds" represents the current portion of interfund loans. "Advances to/from other funds" represents the non-current portion of interfund loans. With respect to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as "internal balances."

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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

D. Assets, Liabilities, and net assets or equity (Continued)

2. Receivables and payables – (Continued)

Advances between funds, reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accrued liabilities include amounts accrued for salaries.

All trade receivables are shown net of an allowance for uncollectible, as applicable.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in the City. Assessed values are an approximation of market values.

Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. No discounts are offered. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end.

Taxes are prorated between general and debt service funds based on rates adopted for the year of the levy.

3. Inventories and prepaid items

Inventories of governmental funds, consisting of fuel and office supplies, are valued at cost on the first-in, first-out basis. Inventories are recorded under the consumption method. Under this method, the expenditure is initially recorded as an asset and subsequently expensed upon usage.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The City's policy through the years has been to capitalize and report the carrying cost of capital assets in governmental activities. However, the City needs to inventory much of its major general capital assets so that it may account for and depreciate them. In the current year depreciation expense is composed of prior year's estimated amount plus the depreciation of current year additions. The City's intention is to inventory these capital assets. The City defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Leases that meet the criteria of a capital lease are capitalized. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and net assets or equity (Continued)

4. Capital Assets – (Continued)

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

Depreciation of general capital assets used by funds categorized as governmental activities is not provided in the fund financial statements, however is included in the gross expense by function in the government-wide Statement of Activities. Capital assets, net of accumulated depreciation, are reported on proprietary fund balance sheets and in both the governmental activities and business-type activities column of the government-wide Statement of Net Assets.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Assets	Useful Lives
Buildings and Improvements	10 – 50 Years
Furniture and Equipment	5 – 7 Years

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The City accrues a liability for sick leave using the vesting method. Vacation leave is accrued as a liability as the benefits are earned by employees when both the employees' rights are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits.

Compensated absences that are expected to be liquidated with expendable available financial resources are reported as expenditures and liabilities of the governmental fund that will pay it in the fund financial statements. Amounts of vested or accumulated compensated absences that are not expected to be liquidated with expendable available financial resources are only reported in the government-wide financial statements in the governmental activities column. A compensated absence is liquidated in the fund where the employee's salary was paid at termination, with all compensated absences liquidated in the general fund that are associated with employees' salaries paid from governmental funds.

6. Long-Term Obligations

In government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental-type activities issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and net assets or equity (Continued)

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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 or resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category; property taxes.

In the addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or 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. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. According, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source; property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Fund Equity

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

E. Pensions

For the 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 determine 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.

NOTE 2- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The City of Palmview, Texas prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis in the General Fund are that total property taxes collected are recognized as revenues (budget) as opposed to recognizing the current year levy as revenues (GAAP).

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 2- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – (Continued)

A. Budgetary Data – (Continued)

The Board of Alderman adopts an "appropriated budget" for the General Fund. In accordance with Government Accounting Standards Board (GASB) Statement 34, a City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears as a Budgetary Comparison Schedule in the required supplementary information section.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Board. Once a budget is approved, it can be formally amended by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Board, and are not made after fiscal year end. No budget amendments were approved during the year.
4. Budgets are amended by the Board as needed. All budget appropriations lapse at year end.

B. Excess of expenditures over appropriations

General Fund expenditures exceeded appropriations in various functional categories. Refer to the budget versus actual comparison noted on pages 35.

NOTE 3- DEPOSITS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law.

At September 30, 2015, the carrying amount of the City's deposits (cash) was \$403,704 and the bank balance was \$418,321. The City's cash deposits at September 30, 2015 and during the year ended September 30, 2015 were entirely covered by FDIC insurance.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 3-DEPOSITS (Continued)

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits and Public Funds

Investment Pools, collateralized by U.S. Government Securities as of September 30, 2015, the City's investments were secured by U.S. Government Securities.

Custodial Credit Risk for Investments State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with law, it has no custodial credit risk for deposits.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all of the City investments are collateralized by U.S. Government Securities.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires that the investments shall be monitored by using specific identification.

Deposits for the MDD are held separately from those of City funds. At September 30, 2015, the carrying amount of the deposits was \$338,606.

A reconciliation of cash and cash equivalents as shown on the Statement of Net Position is as follows:

	Primary Government
Carrying amount of deposits	\$ 403,704
Cash and cash equivalents	403,704
Cash and cash equivalents	403,704
Cash and cash equivalents - restricted	
Cash and cash equivalents Statement of Net Position	\$ 403,704

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 4-PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 5-INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable balances at September 30, 2015 were as follows:

Receivable Fund	Payable Fund	Amount
Debt Service	General Fund	\$ 106,319
General Fund	Debt Service	\$ 106,319

NOTE 6- RECEIVABLES

Receivables at September 30, 2015 were as follows:

	Taxes	Due from Other Governments	Other	Allowance For Uncollectibles	Net Receivables
Governmental					
Activities:					
General	\$ 240,168	\$ 159,826	\$ 108,972	\$ (33,845)	\$ 475,121
Debt Service	59,401	-	-	(11,400)	48,001
Relending	-	-	501,071	(15,180)	485,890
Total	\$ 299,569	\$ 159,826	\$ 610,043	\$ (60,425)	\$ 1,009,012

The annual requirements by participants of the Relending Fund Accounts Receivable at September 30, 2015 are as follows:

Year Ended September 30, 2015	Principal
2016	\$ 72,619
2017	68,480
2018	51,745
2019	48,329
2020	50,433
2021 to maturity	209,464
Total	\$ 501,071

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 7- DISAGGREGATION OF OTHER LIABILITIES

At September 30, 2015 the City had the following other liabilities:

<u>Payable to</u>	<u>Governmental Activities</u>
Customer Deposit	\$ 20,000
Total	<u>\$ 20,000</u>

OTE 8- CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2015 was as follows:

	<u>Primary Government</u>			<u>Ending Balance 9/30/2015</u>
	<u>Beginning Balance 10/1/2014</u>	<u>Additions</u>	<u>Retirements</u>	
Governmental Activities:				
Capital Asset, not being depreciated:				
Land	\$ 506,971	\$ -	\$ -	\$ 506,971
Total assets, not being depreciated	<u>506,971</u>	<u>-</u>	<u>-</u>	<u>506,971</u>
Capital assets being depreciated:				
Buildings	5,742,858	59,500		5,785,258
Furniture and Equipment	3,073,138	801,425	-	3,874,563
Infrastructure	353,039	-	-	353,039
Total assets, being depreciated	9,211,435	860,925	-	10,012,860
Less Accumulated depreciation:				
Buildings	(947,776)	(119,657)	-	(1,067,433)
Furniture and Equipment	(1,890,763)	(203,167)		(2,093,930)
Infrastructure	(79,959)	(23,234)	-	(103,193)
Total Accumulated depreciation	<u>(2,918,498)</u>	<u>(346,058)</u>	<u>-</u>	<u>(3,264,556)</u>
Total capital assets, being depreciated, net	<u>6,292,937</u>	<u>-</u>	<u>-</u>	<u>6,748,304</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,799,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,255,275</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 173,414
Public Safety	<u>172,644</u>
Total Depreciation Expense	<u>\$ 346,058</u>

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 9- DEFERRED REVENUE

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

	Unavailable	Unearned	Total Deferred Revenue
Delinquent Property taxes	\$ 265,162	\$ -	\$ 265,162
	\$ 265,162	\$ -	\$ 265,162

NOTE 10- LONG-TERM DEBT

Governmental Activities

Bonds Payable

\$1,319,566 - 2008A Refunding Bond payable to Lone Star National Bank, originating on March 31, 2009, with interest at 7.25%, with maturity of October 1, 2028 for entire amount including accrued interest. The proceeds were used to liquidate various accounts payable and other liabilities. \$ 979,379

The refunding bond liquidated liabilities other than bonds therefore no additional footnote disclosure was made related to defeased debt or economic gain.

Bonds payable debt service requirements to maturity are as follows:

Year Ended September 30	Principal	Interest	Total
2016	54,366	71,005	125,371
2017	58,308	67,063	125,371
2018	62,535	62,836	125,371
2019	67,069	58,302	125,371
2020	71,931	53,440	125,371
2021-2025	445,866	180,989	626,855
2026- 2027	219,305	23,863	243,168
	\$ 979,379	\$ 517,499	\$ 1,496,878

Notes Payable

Note Payable to Lone Star National Bank. Advance withdrawal on August 1, 2014 which is part of a note dated February 1, 2014. Interest only payment due on January 21, 2015 followed by 14 annual P & I payments in the amount of \$64,756.64 beginning on January 21, 2016 thru January 21, 2029 and one final payment due at maturity. \$ 650,000

Note payable to Lone Star National Bank, originating June 1, 2004 with interest at 5.25%, with a maturity date of February 28, 2014. \$ 1,087,299

Note Payable to Lubbock National Bank with monthly payments of \$3,063.05; originating February 4, 2014 with interest at 4.01% with maturity date of January 4, 2017. \$ 47,322

Note Payable to Kansas State Bank with annual payments of \$81,636.34; originating March 2014 with interest at 3.99% with maturity date of December 15, 2017. \$ 257,718

Total Notes Payable:	\$ 2,042,341
Less: Current Portion of Notes Payable:	\$ 204,338
Total Notes Payable, Net of Current Portion:	\$ 1,838,003

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 10- LONG-TERM DEBT – (Continued)

Governmental Activities – (Continued)

Note payable debt service requirements to maturity are as follows:

<u>Yr Ended September 30, 2015</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	204,338	99,156	303,494
2017	189,127	91,287	280,414
2018	216,377	83,046	299,423
2019	112,224	74,415	186,660
2020	118,028	68,633	186,661
2021-2025	687,898	245,420	933,318
2026-2030	514,328	65,517	579,845
Total	\$ 2,042,340	\$ 727,474	\$ 2,769,814

Capital Leases

The City has entered into lease agreement as lessee for financing the acquisition of vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded as the present value of future minimum lease payments as of the date of the inception. The following summarize the City's debt relating to these assets:

14.02% Lease payable due in monthly installments of \$779.28 including interest collateralized by Fire Truck (ID: #54746)	\$ 28,555
8.42% Lease payable due in monthly installments of \$460.59 including interest collateralized by 2014 GMC Sierra (ID:#71502)	\$ 16,374
8.46% Lease Payable due in monthly installments of \$538.76 including interest collateralized by 2014 GMC Sierra (ID: #40510)	\$ 19,844
6.84% Lease payable due in annual installments of \$14,927.12 including interest, collateralized by 2015 Chevrolet Tahoe (ID: #1028678728)	\$ 39,288
6.19% Lease payable due in 48 monthly installments of \$1,639.56 including interest, collateralized by two 2015 Chevrolet Caprices' (ID: #1027399873) and (ID: #1027399907).	\$ 53,739
5.34% Lease payable due in 72 monthly installments of \$441 including interest, collateralized by a 2015 Chevrolet Silverado (ID: #3GCPCRECOFG324339).	\$ 26,073
3.76% Lease payable due in 15 yearly installments, one of \$65,000, four of \$80,653 and ten of \$58,696 including interest, collateralized by a 2014 Toyne Spartan Aerial Fire Truck with equipment.	\$ 758,101
Total Capital Lease Obligation:	\$ 942,014
Less: Current Portion of Capital Lease Obligation:	\$ 97,574
Capital Lease Obligation, Net of Current Portion:	<u>\$ 844,440</u>

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 10- LONG-TERM DEBT – (Continued)

Governmental Activities – (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015 are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 97,574	\$ 28,667	\$ 128,241
2017	105,858	36,103	141,960
2018	111,927	30,022	141,949
2019	77,123	23,951	101,074
2020	65,143	20,828	86,015
2021-2025	221,487	75,301	296,788
2026-2030	262,858	30,624	296,482
Total	<u>\$ 942,014</u>	<u>\$ 245,496</u>	<u>\$ 1,187,510</u>

RELENDING PROGRAM LONG-TERM DEBT

Loan payable to United States Department of Agriculture, Rural Business Cooperative Service, for \$750,000, at 1%, with interest payments due on May 2007, and May 2008, thereafter requiring twenty eight (28) equal amortized annual installments of \$30,848 representing principal and interest.

	<u>\$ 606,366</u>
Total Notes Payable	606,366
Less: Current Portion of Notes Payable	<u>24,784</u>
Total Notes Payable, Net of Current Portion	<u>\$ 581,582</u>

The annual requirements to retire the Relending notes payable including interest are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 24,784	\$ 6,064	\$ 30,848
2017	25,032	5,816	30,848
2018	25,282	5,566	30,848
2019	25,534	5,313	30,848
2020	25,790	5,057	30,848
2021-2025	132,871	21,366	154,238
2026-2030	139,649	14,588	154,238
2031-2035	146,772	7,465	154,238
2036-2040	60,650	910	61,561
<u>Total</u>	<u>\$ 606,366</u>	<u>\$ 72,145</u>	<u>\$ 678,511</u>

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 10- LONG-TERM DEBT – (Continued)

Governmental Activities – (Continued)

	Beginning Balance 10/1/2014	Increase	Decrease	Ending Balance 9/30/2015	Due Within One Year
Relending Program	\$ 630.904	\$ -	\$ 24.538	\$ 606.366	\$ 24.784
Total Note Payable	\$ 630.904	\$ -	\$ 24.538	\$ 606.366	\$ 24.784

Operating Leases

The City rents three Savin Copiers/Fax/Scanner/Printers Systems under a monthly operating lease. The lease is a 48 month lease with monthly payments of \$695.00. The City also rents equipment on an as-needed basis throughout the year. Lease and rent payments totaled \$27,081.00.

Year Ended September 30	Amount
2016	\$ 12,000

Assets acquired through capital leases are as follows:

	Governmental Activities
Furniture & Equipment	\$ 95.885
Less: accumulated depreciation	\$ (9.028)
Total	\$ 86.857

Changes in long-term liabilities

	Beginning Balance 10/1/2014	Increase	Decrease	Ending Balance 9/30/2015	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 1,030.070	\$ -	\$ 50,691	\$ 979,379	\$ 54,366
Notes Payable	2,176.608		134,267	2,042,341	204,338
Capital Leases	187.048	794.835	39.869	942.014	97.574
Relending	630.904	-	24.538	606.366	24.784
Total Governmental Activity	\$ 4,024.630	\$ 794.835	\$ 249.365	\$ 4,570.100	\$ 381.062

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 11-Defined Benefit Pension Plans

A Plan Description

The City's participation date in TMRS was February 1, 2009. The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.tmr.com.

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

B. 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 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 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 for the City were as follows:

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	5.0%	5.0%
matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 11-Defined Benefit Pension Plans – (Continued)

B. Benefits Provided – (Continued)

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>45</u>
	64

C. 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 of the City of Palmview were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Palmview were 2.9% and 2.9% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$34,837.15 and were equal to required contributions.

D. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0% net of pension plan investment expense, including inflation

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 11-Defined Benefit Pension Plans – (Continued)

D. Net Pension Liability – (Continued)

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 Table, with males rates multiplied by 109% and female rates multiplied by 103%

For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11-15 members.

The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

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

The long-term expected rate of return on pension plan investment is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term 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.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 11-Defined Benefit Pension Plans – (Continued)

D. Net Pension Liability – (Continued)

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

Asset Class	Target allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core-Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 11-Defined Benefit Pension Plans – (Continued)

D. Net Pension Liability – (Continued)

Discount Rate – (Continued)

<i>Changes in the Net Pension Liability</i>	Total	Plan Fiduciary	Net Pension Liability (a) – (b)
Balance at 12/31/2013	\$ 1,011,827	\$ 685,131	\$ 326,696
Changes for the year:			
Service cost	93,057	-	93,057
Interest	73,473	-	73,473
Change of benefit terms	-	-	-
Difference between expected and actual experience	(5, 840)	-	(5,840)
Changes of assumptions	-	-	-
Contributions – employer	-	25,717	(25,717)
Contributions - employee	-	80,904	(80,904)
Net investment income	-	39,219	(39,219)
Benefit payments, including refunds of employee contributions	(17,470)	(17,470)	-
Administrative expense	-	(409)	409
Other changes	-	(34)	34
Net changes	\$ 143,220	\$ 127,927	\$ 15,293
Balance at 12/31/2014	\$ 1,155,047	\$ 813,058	\$ 341,989

Sensitivity of the net pension liability to changes in the discount rate.

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

	1% Decrease	Discount Rate (7.0%)	1% Increase
City’s net pension liability	\$ 596,204	\$ 341,989	\$ 40,946

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com

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

For the year ended September 30, 2015, the City recognized pension expense of \$41,095.18.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 11-Defined Benefit Pension Plans – (Continued)

D. Net Pension Liability – (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,841	\$ -
Changes in actuarial assumptions	\$ -	\$ -
Differences between projected and actual investment earnings	\$ -	\$ -
Contributions subsequent to the measurement date (to be calculated the City)	\$ 4,837	\$ -
Total	\$ 36,678	\$ -

\$34,837 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ended Dec 31:	
2016	\$1,059
2017	\$1,059
2018	\$1,059
2019	\$1,059
2020	\$ (689)
Thereafter	\$ (1,706)
Total	\$ 1,841

NOTE 12- RISK MANAGEMENT

A. Primary Government

The City maintains insurance for all business and government functions for which it may be liable for claims. The more significant of these include general liability insurance in an aggregate amount of \$600,000; law enforcement liability in an aggregate amount of \$600,000 and errors and omissions liability in an aggregate amount of \$600,000. Employees were covered by a health insurance plan. There have been no significant reductions in insurance coverage.

CITY OF PALMVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 13- COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is the defendant in several lawsuits. It is the opinion of management and the outside attorney that the outcome of the lawsuit will not be significant to the City.

B. Federally Assisted Grant Programs

The City participates in several Federal and State assisted grant programs. Although the City grant programs were not subject to the provisions of the Single Audit Act, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 14- PRIOR PERIOD ADJUSTMENTS

Fund Level

At year-end the City had to make various prior period adjustments to the General Fund fund-balance that resulted in a net decrease of \$23,906. The adjustments were related to understated and overstated receivable and payable balances in various accounts

Government-Wide

On the Statement of Activities, the City made various prior period adjustments that resulted in a decrease in net assets of \$23,900. The adjustments were related to understated and overstated receivable and payable balances in various accounts.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PALMVIEW
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR YEAR ENDED SEPTEMBER 30, 2015**

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes				
Property	\$ 962,810	\$ 1,163,000	\$ 1,254,994	\$ 91,994
Sales	725,450	732,950	794,449	61,499
Franchise	169,200	279,000	299,154	20,154
Licenses and permits	71,400	72,400	80,810	8,410
Intergovernmental revenues and grants	465,000	678,700	687,069	8,369
Charges for services	816,000	862,000	914,313	52,313
Fines	1,125,000	695,750	660,663	(35,087)
Interest	500	50	22	(28)
Miscellaneous	29,500	149,843	282,342	132,499
Total revenues	<u>4,364,860</u>	<u>4,633,693</u>	<u>4,973,815</u>	<u>340,123</u>
Expenditures				
Current				
General Government				
Administration				
Personal services	165,323	136,323	138,811	(2,488)
Employee benefits	167,647	139,200	149,896	(10,696)
Supplies	23,970	51,050	64,967	(13,917)
Maintenance	39,000	15,900	14,225	1,675
Purchased services	781,675	991,960	1,007,051	(15,091)
Capital outlay	-	-	-	-
Miscellaneous	265,068	159,552	135,127	24,424
	<u>1,442,683</u>	<u>1,493,985</u>	<u>1,510,077</u>	<u>(16,093)</u>
Inspection				
Personal services	51,012	51,000	52,204	(1,204)
Employee benefits	3,902	3,902	3,994	(91)
Supplies	-	-	-	-
Maintenance	-	-	-	-
Purchased services	6,080	14,200	11,486	2,715
Capital outlay	-	-	-	-
Miscellaneous	-	-	50	(50)
	<u>60,994</u>	<u>69,102</u>	<u>67,733</u>	<u>1,369</u>
Municipal Court				
Personal services	43,005	43,000	44,038	(1,038)
Employee benefits	3,290	3,300	3,369	(69)
Supplies	-	-	-	-
Maintenance	50,000	25,000	-	25,000
Purchased services	4,085	21,225	35,828	(14,603)
Capital outlay	-	-	-	-
Miscellaneous	255,400	159,000	150,470	8,530
	<u>355,780</u>	<u>251,525</u>	<u>233,705</u>	<u>17,820</u>
Tax Department				
Personal services	-	-	-	-
Employee benefits	-	-	-	-
Supplies	-	-	-	-
Maintenance	-	-	-	-
Purchased services	20,840	35,990	63,302	(27,312)
Capital outlay	-	-	-	-
Miscellaneous	-	-	-	-
	<u>20,840</u>	<u>35,990</u>	<u>63,302</u>	<u>(27,312)</u>

**CITY OF PALMVIEW
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR YEAR ENDED SEPTEMBER 30, 2015**

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Finance				
Personal services	20,659	23,409	17,071	6,338
Employee benefits	1,580	1,805	1,306	500
Supplies	-	-		-
Maintenance				-
Purchased services	-	-		-
Capital outlay				-
Miscellaneous	-	-		-
	<u>22,240</u>	<u>25,215</u>	<u>18,377</u>	<u>6,838</u>
Alderman				
Personal services	-	-		-
Employee benefits	-	-		-
Supplies	-	-		-
Maintenance	-	-		-
Purchased services	9,280	22,700	22,816	(116)
Capital outlay	-	-		-
Miscellaneous			1,190	(1,190)
	<u>9,280</u>	<u>22,700</u>	<u>24,005</u>	<u>(1,305)</u>
City Secretary				
Personal services	14,462	41,212	37,793	3,419
Employee benefits	1,106	3,306	2,891	415
Supplies				-
Maintenance				-
Purchased services	200	-	668	(668)
Capital outlay				-
Miscellaneous				-
	<u>15,768</u>	<u>44,518</u>	<u>41,352</u>	<u>3,166</u>
Total General Government	<u>1,927,585</u>	<u>1,943,035</u>	<u>1,958,553</u>	<u>(15,518)</u>
Public safety				
Personal services	1,142,072	1,404,700	1,468,144	(63,444)
Employee benefits	87,369	110,050	111,062	(1,012)
Supplies	160,000	117,500	112,418	5,082
Maintenance	56,900	82,800	106,230	(23,430)
Purchased services	286,862	164,045	269,043	(104,998)
Capital outlay			128,385	(128,385)
Miscellaneous	48,174	119,034	79,311	39,723
	<u>1,781,377</u>	<u>1,998,129</u>	<u>2,274,594</u>	<u>(276,465)</u>
Total Public Safety	<u>1,781,377</u>	<u>1,998,129</u>	<u>2,274,594</u>	<u>(276,465)</u>

**CITY OF PALMVIEW
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR YEAR ENDED SEPTEMBER 30, 2015**

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Highway and Streets				
Street Maintenance				
Personal services	173,621	153,211	159,802	(6,591)
Employee benefits	13,282	11,700	12,225	(525)
Supplies	40,000	34,700	33,258	1,442
Maintenance	40,000	86,500	96,124	(9,624)
Purchased services	31,920	38,100	38,482	(382)
Capital outlay			2,426	(2,426)
Miscellaneous	-	1,400	1,290	110
	<u>298,823</u>	<u>325,611</u>	<u>343,607</u>	<u>(17,996)</u>
Total Highway & Steets	<u>298,823</u>	<u>325,611</u>	<u>343,607</u>	<u>(17,996)</u>
Culture and Recreation				
Parks and Recreation				
Personal services	95,836	108,240	109,468	(1,228)
Employee benefits	7,331	8,500	8,374	126
Supplies	40,100	32,400	6,230	26,170
Maintenance	10,900	2,000	1,356	644
Purchased services	43,543	47,003	65,467	(18,464)
Capital outlay	-	-	7,642	(7,642)
Miscellaneous	37,465	46,875	34,693	12,182
	<u>235,175</u>	<u>245,018</u>	<u>233,230</u>	<u>11,788</u>
Total Culture and Recreation	<u>235,175</u>	<u>245,018</u>	<u>233,230</u>	<u>11,788</u>
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Debt service				
Principal	61,003	61,003	137,501	(76,498)
Interest and fiscal charges	60,896	60,896	170,273	(109,376)
	<u>121,900</u>	<u>121,900</u>	<u>307,774</u>	<u>(185,874)</u>
Total expenditures	4,364,860	4,633,693	5,117,792	(484,065)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(143,977)</u>	<u>824,188</u>
Fund balance, beginning of year			453,644	
Prior period adjustment			(23,906)	
Fund balance, beginning of year - restated			<u>429,738</u>	
Fund balance, end of year			<u>\$ 285,761</u>	

City of Palmview
 Schedule of Contributions
 Texas Municipal Retirement System
 Year Ended September 30, 2015

	2015
Actuarially Determined Contribution	\$ 34,837
Contributions in relation to the Actuarially determined contribution	\$ 34,837
Contribution deficiency (excess)	-
Covered payroll	\$ 1,734,508
Contributions as a percentage of covered employee payroll	2.09%

Notes to Schedule of Contributions

Valuation Date:

Notes

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	25 years
Asset Valuation Method	10 Year Smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%

Retirement Age

Experiences based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.

Mortality

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generation basis with scale BB.

Notes

There were no benefit changes during the year.

Notes

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Palmview
Schedule of Changes in the City's Net Pension Liability and Related Ratios
Texas Municipal Retirement System
Year Ended September 30, 2015

	2014
Total pension liability	
Service Cost	93,057
Interest (on the Total Pension Liability)	73,473
Changes of benefit terms	0
Difference between expected and actual experience	(5,840)
Change of assumptions	0
Benefit payments, including refunds of employee Contributions	(17,470)
Net Change in Total Pension Liability	143,220
Total Pension Liability – Beginning	1,011,827
Total Pension Liability - Ending (a)	1,155,047
Plan Fiduciary Net Position	
Contributions – Employer	25,717
Contributions – Employee	80,904
Net Investment Income	39,219
Benefit payments, including refunds of employee Contributions	(17,470)
Administrative Expense	(409)
Other	(34)
Net Change in Plan Fiduciary Net Position	127,927
Plan Fiduciary Net Position – Beginning	685,121
Plan Fiduciary Net Position - Ending (b)	812,058
Net Pension Liability - Ending (a) - (b)	341,989
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	70.39%
Covered Employee Payroll	1,618,090
Net Pension Liability as a Percentage of Covered Employee Payroll Notes Schedule	21.14%

Notes to Schedule: N/A

Note to City: GASB 68 requires 10 fiscal years of data to be provided in this schedule. GRS will provide the current year results. The employer will be required to build this schedule over the next 10-year period.

**CITY OF PALMVIEW
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015**

Stewardship, compliance, and accountability

Budgetary information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year end.

As required by state law, the Mayor submits to the City Council the proposed executive budget for the fiscal year prior to the beginning of such fiscal year. Public hearings are then conducted to obtain taxpayer comments.

The original annual appropriated budget and any revisions of such budget that affect the overall fund total expenditures are made through appropriated budget resolutions approved by the City Council. The original annual appropriated budgets are adopted by resolution by the City Council prior to the beginning of the fiscal year as required by state law. The final annual amended appropriated budget is used in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such fund.

The City Secretary is authorized to transfer budgeted amounts between line items within any fund; however, any revisions that alter the overall fund total of appropriated expenditures of any fund must be approved by the City Council.

During the year, revenues were \$340,123 more than budgeted and expenditures exceeded budget by (\$484,065). The City did not have intergovernmental revenues and grants; with the exception of several reimbursement grants in the Public Safety Department.

Department	General Fund Excess of Expenditures Over Appropriations
Administration	\$ 16,093
Tax Department	27,312
Alderman	1,305
Public Safety	276,465
Highway & Streets	17,996
	\$ 339,171

CITY OF PALMVIEW
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

Budget to GAAP Reconciliation

The following is an explanation of differences between budgetary basis and GAAP revenues and expenditures:

<u>Revenues:</u>	<u>General Fund</u>
Actual revenues (budgetary basis) from the budgetary comparison schedule (Pg 35)	\$ 4,633,693
Adjustments:	340,123
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds (Pg 37)	<u>\$ 4,973,816</u>
<u>Expenditures:</u>	<u>General Fund</u>
Actual expenditures (budgetary basis) from the budgetary comparison schedule (Pg 37)	\$ 4,633,693
Adjustments:	484,065
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds (Pg 39)	<u>\$ 5,117,758</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF PALMVIEW MUNICIPAL DEVELOPMENT DISTRICT
 BALANCE SHEET
 COMPONENT UNIT
 SEPTEMBER 30, 2015

ASSETS

Cash and cash equivalents	\$ 338,606
Total assets	<u>338,606</u>

LIABILITIES AND FUND BALANCE

LIABILITIES	-
Fund Balances	
Unassigned	<u>338,606</u>
Total net fund balance	<u>338,606</u>
Total liabilities and fund balances	<u>\$ 338,606</u>

RECONCILIATION OF FUND BALANCE SHEET
 TO THE STATEMENTS OF NET POSITION

Total fund balance- component unit balance sheet	338,606
Capital assets are not financial resources and therefore not reported in the funds	91,944
Liabilities not due in the current period are not reported in the funds	<u>(39,808)</u>
Net assets of component unit - statement of net position	<u>\$ 390,743</u>

CITY OF PALMVIEW
MUNICIPAL DEVELOPMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 31, 2015
COMPONENT UNIT

Revenues

Taxes and special assessments	\$ 353,104
Total revenues	\$ 353,104

Expenditures

Current

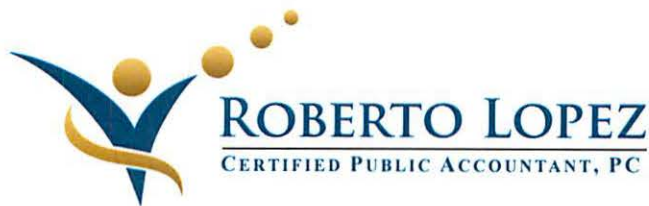
Consulting	13,750
Accounting	9,000
Advertising	6,704
Office	395
Membership	200
Registration	1,710
Travel	3,011
Conferences	5,000
Meetings	177
Capital outlay	54,092
Total Expenditures	94,040

Change in fund balance	259,064
Fund balance, beginning of year	79,542
Fund balance, end of year	\$ 338,606

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

Net change in fund balance- component unit	\$ 259,064
Capital outlay is reported as a fixed asset in the statement of activities	54,092
Depreciation is net against fixed assets in the statement of activities	(1,956)
Change in net assets of component unit - statement of activities	\$ 311,200

GOVERNMENTAL AUDIT SECTION



MEMBER OF TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

913 E HARRISON AVE., SUITE 18
HARLINGEN, TX 78550

MEMBER OF AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

PHONE: 956-425-9020 FAX: 956-425-9077
EMAIL: roberto.lopez@robertolopezcpa.com

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

Honorable Mayor and
Members of the Board of Aldermen/Alderwomen
City of Palmview, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palmview, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Palmview, Texas' basic financial statements and have issued our report thereon dated February 01, 2016.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. Re: 2015-1 and 2015-2

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. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. Re: 2015-3

Compliance and Other Matters

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

City of Palmview, Texas' Schedule of Findings and Responses

City of Palmview, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Palmview, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Roberto Lopez CPA PC
Harlingen, Texas

February 01, 2016

**CITY OF PALMVIEW, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Palmview, Texas was a modified opinion.
- b. Two material weaknesses in internal control were disclosed by the audit of the general purpose financial statements. See section below for material weaknesses.
- c. There were no instances of noncompliance material findings to the financial statements of the City of Palmview, Texas, which would be required to be reported in accordance with Governmental Auditing Standards.
- d. Significant deficiencies in internal control over major programs involving material weakness: Listed below.
- e. Other deficiencies included below:

II. Findings required to be reported by Government Auditing Standards

15-1 Fixed Assets Management

Condition: The Organization had not taken inventory of its fixed assets in recent years.

Criteria: Entities are required to maintain a current schedule of fixed assets.

Cause: Management does not have a policy that requires a physical inventory.

Effect: No physical inventory count of the Organization's fixed assets.

Recommendation: Implement a proper written procedure that can be monitored and provide management with assurance that a physical inventory count of its fixed assets is conducted at least on an annual basis.

Auditee's Response: Management is currently working on the policies and procedures. These policies will include a requirement to have a physical inventory count. An initial physical inventory count will be conducted to establish the necessary records for the accounting of fixed assets which will be maintained on a timely basis.

15-2 Notes Receivable

Condition: The Organization has fallen back in its collection of loan payments for the five participants in the Relending Program.

Criteria: The Relending Program has fiduciary responsibilities to ensure that all participants make timely payments on their loans to the program.

Cause: Management has not been able to pursue an effective collection policy.

Effect: Relending Program may not be able to expand its services to new participants.

Recommendation: Management should explore other possible avenues to encourage current Program participants to continue with their pay back responsibilities.

Auditee's Response: Management has calculated the principal and interest balances for each participant. This calculation was made through year ended September 30, 2015 and through January 30, 2016 of the current fiscal year. All efforts will be made to ensure that the participants are aware of the amounts that they owe. Strong and consistent procedures will be performed on a timely manner.

Significant Deficiencies

15-3 Controls over the City's Long-Term Debt

Condition: The City did not maintain a note register making it difficult to track long term debt payments and balances.

Criteria: The City should maintain schedules to track all long-term debt.

Cause: The City does not have a policy that requires monitoring of long term debt on a current basis.

Effect: No current schedules of the long-term debt and their current status.

Recommendation: Set up schedules to maintain long-term debt.

Auditee's Response: The City's long-term debt require one annual payment for each long-term debt. These payments have been included in the budget to ensure that these payments are made on a timely basis. Additional schedules will be implemented separately to maintain the City's long-term debt.

III. Findings Relating to State Awards.

None identified