

City of Palmview, Texas

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016



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City of Palmview, Texas
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September 30, 2016

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REPORT



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and each major fund of the City of Palmview, Texas as of and for the year ended September 30, 2016, 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.

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

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

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. 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 discretely presented component unit, and each major fund of the City of Palmview, Texas, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 44 through 49 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2017, 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.

Casey Riggs & Ingram, L.L.C.

McAllen, Texas
June 29, 2017



FINANCIAL STATEMENTS

Management's 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, 2016. 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 \$3,600,431 (net assets).
- The City's total net position as restated increased by \$20,472. Total revenues reflect an increase of 28% compared to prior year. Expenses increased by 17%.
- At the end of the current fiscal year, unreserved fund balance for the general fund as restated was \$182,777 an increase of \$33,215 or 22% compared with prior year restated balance.
- The City of Palmview's total long term debt increased by \$148,171 or 3% during the current fiscal 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 of 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 position* presents information on all the City of Palmview's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City 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

Management's Discussion and Analysis

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 the 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 funds.

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

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

The City of Palmview maintains three 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, relending 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 16-43 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 44-49 of this report.

Management's Discussion and Analysis

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 \$3,600,431 at the close of the most recent fiscal year.

<i>As of September 30,</i>	2016	2015
	Governmental Activities	Governmental Activities
Current other assets	\$ 1,619,775	\$ 1,504,046
Capital assets	7,537,223	7,255,274
Total assets	9,156,998	8,759,320
Long-term liabilities outstanding	5,092,515	4,531,027
Other liabilities	464,052	1,054,096
Total liabilities	5,556,567	5,585,123
Net investment in capital assets	3,668,963	3,941,542
Restricted net assets	264,370	-
Unrestricted net assets	(332,902)	(767,345)
Total net position	\$ 3,600,431	\$ 3,174,197

By far the largest portion of the City's net assets, \$3,600,431 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.

Management's Discussion and Analysis

Analysis of Changes in Net Assets

The following table summarizes the changes in the City's net assets from its activities for the fiscal year ended September 30, 2016.

<i>During the year ended September 30,</i>	2016	2015
	Governmental Activities	Governmental Activities
Program revenues		
Charges for services	\$ 1,768,321	\$ 1,659,624
Operating grants and contributions	567,822	687,069
General revenues		
Property taxes	1,917,565	1,234,575
Sales taxes	1,383,190	794,449
Franchise taxes	309,604	299,154
Interest earned	26,170	22
Miscellaneous revenue	255,527	192,913
Total revenue	6,228,199	4,867,806
Expenses		
General government	2,577,000	2,115,920
Public safety	2,549,427	2,407,749
Highway and streets	443,497	339,803
Cultural and recreation	295,454	224,642
Debt service	342,349	196,861
Pension expense	-	39,169
Total expenses	6,207,727	5,324,144
Net position		
Increase (decrease) in net assets	20,472	(456,338)
Beginning net assets	3,174,197	3,960,620
Prior period adjustment	405,762	(330,085)
Ending net position	\$ 3,600,431	\$ 3,174,197

The revenues generated were \$6,288,199 reflecting an increase of \$1,360,393 or 28% compared to last year due to an increase in tax rates and annexations in recent years. Expenses were \$6,207,727 thus increasing net assets by \$20,472.

Management's Discussion and Analysis

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 \$916,242, an increase of \$21,626 in comparison with the prior year restated balance.

The Debt Service Fund has a total fund balance of \$26,216.

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 intergovernmental revenues and grants, is due to unforeseen Grant and the revenue from Asset & Forfeiture account, that is not budgeted for.
- Debt Service exceeded budgeted expenditures, due to Vehicle and Lease Payments made by Asset & Forfeiture accounts, which is not budgeted for.
- Total actual expenditures exceed budgeted expenditures in the year by \$968,503. The most significant expenditures exceeding the budgeted expenditures were public safety by \$651,418. The increase in Public Safety was attributed to overtime and equipment funded with unbudgeted revenue sources from Asset and Forfeitures and other grants.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016, the City had \$7,537,223, 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.

<i>As of September 30,</i>	2016	2015
Land	\$ 506,971	\$ 506,971
Construction in progress	10,000	-
Buildings	4,645,531	4,717,825
Furniture and equipment	1,947,160	1,780,633
Infrastructure	427,561	341,790
Total capital assets	\$ 7,537,223	\$ 7,347,219

Management's Discussion and Analysis

Debt

At year-end, the City had outstanding long-term obligations of \$4,424,236, a decrease of approximately \$145,863 over the prior year. The table below reflects the outstanding debt as of 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.

<i>As of September 30,</i>	2016	2015
Bonds payable	\$ 924,198	\$ 979,379
Notes payable	1,837,711	2,042,341
Capital leases	1,105,952	942,014
Relending	556,376	606,366
Total long-term debt	\$ 4,424,237	\$ 4,570,100

ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS AND RATES

- Appraisal values used in preparing the 2017 budget were up \$167,160 or 3.44% from prior year.
- The 2017 Budget increase was prepared using an adopted tax rate of \$.4751 per \$100 valuation. There was no increase/decrease from the prior year tax rates.
- The 2017 General Fund operating budget was prepared estimating a balanced budget at September 30, 2017. The actual unreserved fund balance for the general fund was \$69,279.

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

City of Palmview, Texas
Statement of Net Position

September 30, 2016

	Governmental Activities	Component Unit Municipal Development District
Assets		
Cash and cash equivalents	\$ 400,794	\$ 529,488
Receivables, net	366,933	78,022
Due from other governments	259,364	-
Due from component unit	249	-
Note receivable long-term, net	488,875	-
Capital assets:		
Land and construction in progress	516,971	-
Other capital assets, net	7,020,252	-
Total assets	9,053,438	607,510
Deferred outflows of resources		
Deferred outflows related to TMRS	103,560	-
Total deferred outflows of resources	103,560	-
Total assets and deferred outflows of resources	\$ 9,156,998	\$ 607,510
Liabilities and net position		
Liabilities		
Accounts payable	\$ 205,805	\$ 4,176
Due to primary government	-	249
Accrued liabilities	109,886	-
Accrued interest payable	103,064	2,225
Other current liabilities	8,500	-
Non-current liabilities:		
Due within one year	552,613	45,000
Due in more than one year	4,111,315	415,000
Net pension liability	428,587	-
Total liabilities	5,519,770	466,650
Deferred inflows of resources		
Deferred inflows related to TMRS	36,797	-
Total deferred inflows of resources	36,797	-
Net position		
Net investment in capital assets	3,668,963	-
Restricted	-	-
Relending program	150,872	
Crime prevention program	94,987	
Assets and forfeitures	18,511	
Unrestricted deficit	(332,902)	140,860
Total net position	3,600,431	140,860
Total liabilities, deferred inflows of resources and net position	\$ 9,156,998	\$ 607,510

The accompanying notes are an integral part of these financial statements

City of Palmview, Texas Statement of Activities

Year ended September 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Component Unit
				Governmental Activities	Municipal Development District
Functions/Programs					
Governmental activities:					
General government	\$ 2,577,000	\$ 1,072,171	\$ -	\$ (1,504,829)	
Public safety	2,549,427	696,150	419,108	(1,434,169)	
Highway and streets	443,497	-	74,956	(368,541)	
Culture and recreation	295,454	-	73,758	(221,696)	
Interest on long-term debt	342,349	-	-	(342,349)	
Total primary government	\$ 6,207,727	\$ 1,768,321	\$ 567,822	(3,871,584)	
Component unit					
Municipal Development District	\$ 663,761	\$ -	\$ -		\$ (663,761)
Total component unit	\$ 663,761	\$ -	\$ -		(663,761)
General revenues:					
Taxes:					
Property taxes, levied for general purposes				1,783,792	-
Property taxes, levied for debt service				133,773	-
Sales taxes				1,383,190	447,233
Franchise taxes				309,604	-
Interest earned				26,170	-
Miscellaneous				255,527	-
Total general revenues				3,892,056	447,233
Change in net assets				20,472	(216,528)
Net Position - Beginning				3,174,197	390,742
Prior period adjustment				405,762	(33,354)
Net Position - Beginning - as restated				3,579,959	357,388
Net Position - Ending				\$ 3,600,431	\$ 140,860

The accompanying notes are an integral part of these financial statements

City of Palmview, Texas
Balance Sheet – Governmental Funds

September 30, 2016

	General Fund	Debt Service Fund	Relending Economic Development	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 158,700	\$ 23,720	\$ 218,374	\$ 400,794
Taxes receivables, net	228,769	25,876	-	254,645
Due from other funds	-	1,739	-	1,739
Other receivables	112,288	-	488,875	601,163
Due from other governments	259,613	-	-	259,613
Total assets	\$ 759,370	\$ 51,335	\$ 707,249	\$ 1,517,954
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 205,805	\$ -	\$ -	\$ 205,805
Due to other funds	1,739	-	-	1,739
Accrued liabilities	109,886	-	-	109,886
Other current liabilities	8,500	-	-	8,500
Total liabilities	325,930	-	-	325,930
Deferred inflows of resources				
Unavailable revenue	250,663	25,119	-	275,782
Total deferred inflows of resources	250,663	25,119	-	275,782
Fund balances				
Restricted				
Relending program	-	-	707,249	707,249
Crime prevention program	94,987	-	-	94,987
Assets and forfeitures	18,511	-	-	18,511
Unassigned	69,279	26,216	-	95,495
Total net assets	182,777	26,216	707,249	916,242
Total liabilities, deferred inflows of resources and fund balances	\$ 759,370	\$ 51,335	\$ 707,249	\$ 1,517,954

The accompanying notes are an integral part of these financial statements

City of Palmview, Texas
Statement of Revenues, Expenditures and Changes
In Fund Balances - Governmental Funds

Year ended September 30, 2016

Total Fund Balances - Governmental Funds Balance Sheet	\$	916,242
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.		7,537,223
Property taxes receivables and grants receivable unavailable to pay for current period expenditures are deferred in the funds.		275,782
Payables for bond principal which are not due in the current period are not reported in the funds.		(924,198)
Payables for note principal which are not due in the current period are not reported in the funds.		(2,394,087)
Payables for capital lease principal which are not due in the current period are not reported in the funds.		(1,105,952)
Compensated absences that are not due in the current period are not reported in the funds.		(239,691)
Payable for long term debt interest which are not due in the current period are not reported in the funds.		(103,064)
Liability for pension obligation is not reported in the funds.		(428,587)
Deferred outflows of resources related to pension are not reported in the funds.		103,560
Deferred inflows of resources related to pension is not reported in the funds.		(36,797)
Net Assets of Governmental Activities - Statement of Net Position		3,600,431

The accompanying notes are an integral part of these financial statements.

City of Palmview, Texas
Statement of Revenues, Expenditures and Changes
In Fund Balances - Governmental Funds

Year ended September 30, 2016

	General	Debt Service	Relending	Total
	Fund	Fund	Fund	Governmental
				Funds
Revenues				
Taxes and special assessments	\$ 3,526,067	\$ 129,139	\$ -	\$ 3,655,206
Licenses and permits	73,562	-	-	73,562
Intergovernmental revenue and grants	404,371	-	-	404,371
Charges for services	998,609	-	-	998,609
Fines	696,150	-	-	696,150
Interest	26	658	22,822	23,506
Miscellaneous	216,118	-	2,664	218,782
Total revenues	5,914,903	129,797	25,486	6,070,186
Expenditures				
General government	2,426,345	-	10,653	2,436,998
Public safety	2,745,156	-	-	2,745,156
Highway and streets	647,308	-	-	647,308
Culture and recreation	289,909	-	-	289,909
Debt service				
Principal	157,306	54,973	25,034	237,313
Interest and fiscal charges	163,072	70,398	5,814	239,284
Total expenditures	6,429,096	125,371	41,501	6,595,968
Excess (deficiency) of revenues over (under) expenditures	(514,193)	4,426	(16,015)	(525,782)
Other financing sources (uses)				
Proceeds from new borrowings	482,408	-	-	482,408
Proceeds from sale of assets	65,000	-	-	65,000
Total other financing sources (uses)	547,408	-	-	547,408
Net change in fund balances	33,215	4,426	(16,015)	21,626
Fund balance, beginning of year	186,378	(102,275)	201,658	285,761
Prior period adjustment	(36,816)	124,065	521,606	608,855
Fund balance, beginning as restated	149,562	21,790	723,264	894,616
Fund balance, end of year	\$ 182,777	\$ 26,216	\$ 707,249	\$ 916,242

The accompanying notes are an integral part of these financial statements.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities**

Year ended September 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 21,626
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	98,370
The depreciation of capital assets used in governmental activities is not reported in the funds.	(466,573)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(44,848)
Accrued revenues from grants which are not collected in the current period are not reported in the funds.	14,737
Redevelopment asset contributions are reported in the SOA but not in the funds.	123,120
Payment of principal on long-term liabilities is an expenditure in the funds, but not in the SOA.	420,273
Compensated absences is an expenditure in the SOA but not in the funds.	(39,439)
(Increase) decrease in accrued interest from beginning of period to end of period.	(103,064)
Change in pension obligation and deferred outflows related to pensions are not reported in the SOA.	(3,730)
Change in Net Assets of Governmental Activities - Statement of Activities	\$ 20,472

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Palmview, Texas 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.

New Accounting Standards Adopted

In fiscal year 2016, the City adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 72, Fair Value Measurement and Application
- Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to certain provisions of GASB Statements 67 and 68
- Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Government
- Statement No. 79, Certain External Investment Pools and Pool Participants

Statement No. 72 requires that investments be measured at fair value using a consistent definition and valuation techniques. It also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. There was no impact on the City's financial statements as a result of the implementation of Statement No. 72.

Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. There was no impact on the City's financial statements as a result of the implementation of Statement No. 73.

Statement No. 76 was issued to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. It also amends Statement No. 62, codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements, paragraph 64, 74, and 82. There was no impact on the City's financial statements as a result of the implementation of Statement No. 76.

Statement No. 79 establishes criteria for external investment pools to qualify for making the election to measure all of their investments at amortized cost for financial reporting purposes. If an external investment pool meets all of the criteria for reporting at amortized cost, pool participants also should measure their investments in that external pool at amortized cost. If an external pool does not meet all the criteria in this statement, pool participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement 31. There was no impact on the City's financial statements as a result of the implementation of Statement No. 79.

Reporting Entity

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 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*, as amended. 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 on a separate column in the government-wide financial statements to emphasize its legal separateness from the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is also subject to oversight by the Palmview City Council. The MDD was incorporated during the fiscal year ending September 30, 2014. The fund level financial statements of the component unit are included in the *Other Supplementary Information* section of this report.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

The *Relending Economic Development* fund accounts for the accumulation of resources, in the form of collections on long term note receivables from the relending program participants, for the payment of principal, and interest on long-term debt of the fund.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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."

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 1st 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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:

Fixed Asset Class	Estimated Useful Lives (years)
Buildings and improvements	10 - 50
Furniture and equipment	5 - 7

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenses in the period incurred, with the exception of portions related to bond insurance, which are classified as prepaid expenses and amortized over the term of the policy.

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.

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 of resources (expense/expenditure) until then. The City has multiple items that qualify for reporting in this category; property taxes, and grant revenue. Deferred outflows of resources related to pensions are also reported in this category.

In 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 of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources; property taxes, and grant revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pensions are also reported in this category.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reporting

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.

GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

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 determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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).

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.

Excess of Expenditures Over Appropriations

General Fund expenditures exceeded appropriations in various functional categories. To address improper budgeting in the future, Management will be including grant revenues in excess of originally budgeted amounts and the related use of such funds in budget amendments before the end of the fiscal period.

NOTE 3 – DEPOSITS AND INVESTMENTS

Primary Government

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.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2016, the carrying amount of the City's deposits (cash) was \$409,590 and the bank balance was \$400,794, all of which is unrestricted. The City maintains cash balances deposited with several financial institutions. The Federal Deposit Insurance Corporation (FDIC) provides insurance on interest and non-interest bearing accounts up to \$250,000. As of September 30, 2016, the City's funds that were held in both interest and non-interest bearing accounts above FDIC coverage limits totaled \$77,472 which were not collateralized.

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. 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. State statutes require the City to adopt an investment policy, which the City has not done, however throughout the year and as of September 30, 2016 the City did not have any funds invested as listed above.

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, 2016, the City did not hold any funds in investments needing to be collateralized 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. As of September 30, 2016, the City did not hold any funds in investments needing to be pledged.

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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. As of September 30, 2016, the City did not hold any funds in investments needing to be 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. As of September 30, 2016, the City did not hold any funds in investment securities.

Municipal Development District

The funds of the Municipal Development District (MDD) 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, 2016, the carrying amount of the MDD's deposits (cash) was \$529,488 and the bank balance was \$535,468, all of which is unrestricted. The Federal Deposit Insurance Corporation (FDIC) provides insurance on interest and non-interest bearing accounts up to \$250,000. As of September 30, 2016, the MDD's funds that were held in both interest and non-interest bearing accounts above FDIC coverage limits totaled \$285,468 which were not collateralized.

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 general and debt service funds 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, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

City of Palmview, Texas
Notes to Financial Statements

NOTE 4 - PROPERTY TAXES (Continued)

Property taxes are billed and collected by the Hidalgo County Tax Office for the City by contract agreement. Tax collections are transferred directly into the City's bank account.

The City is a Home-Rule Charter City with a maximum authorized tax rate for all purposes of \$2.50 per \$100 valuation. For the year ended September 30, 2016, property tax rates were \$.4440 and \$.0311 for the general fund and the debt service fund respectively, per \$100 of assessed value.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables result from the debt service fund paying debt service in other debt owed by the General Fund. The remaining balance as of September 30, 2016, is as follows:

<u>Payable from</u>	<u>Payable to</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 1,739

NOTE 6 - RECEIVABLES

Receivables at September 30, 2016 were as follows:

<u>Governmental Activities:</u>	<u>Receivable</u>					
	Taxes	Due from other governments	Due from component unit	Other	Allowance for uncollectibles	Net receivables
General Fund	\$ 348,658	\$ 259,364	\$ 249	\$ 112,288	\$ (119,889)	600,670
Debt Service Fund	31,486	-	-	-	(5,610)	25,876
Total receivables	\$ 380,144	\$ 259,364	\$ 249	\$ 112,288	\$ (125,499)	\$ 626,546

NOTE 7 – NOTE RECEIVABLES

Notes receivable are due from several individuals for the economic development of the City. These notes bear interest of 4% and are paid on the 15th of every month, with maturities ranging from 2019 to 2025; the notes are collected by a separate agency. Management has established an allowance for doubtful accounts based upon historical collection amounts. Due to the long term nature of these receivables, the net amount is offset by a Nonspendable amount in fund balance to reflect that these assets are not readily available.

<u>Governmental Activities:</u>	<u>Receivable</u>		
	Notes receivable	Allowance for uncollectibles	Net receivables
Relending	\$ 514,606	\$ (25,730)	\$ 488,875
Total receivables	\$ 514,606	\$ (25,730)	\$ 488,875

City of Palmview, Texas
Notes to Financial Statements

NOTE 7 – NOTE RECEIVABLES (Continued)

The annual requirements by participants of the Relending Fund Accounts Receivable at September 30, 2016 are as follows:

During the year ended September 30,

2017	\$ 67,146
2018	70,591
2019	60,286
2020	53,924
2021	56,297
All years thereafter	206,362
Total	\$ 514,606

NOTE 8 - DISAGGREGATION OF OTHER LIABILITIES

At September 30, 2016, the City had the following other liabilities:

Payable to	Governmental Activities
Customer deposits	\$8,500
Total other liabilities	\$8,500

City of Palmview, Texas
Notes to Financial Statements

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2016 was as follows:

<i>For the Years Ended September 30,</i>	Primary Government			2016
	2015 <i>(Restated)</i>	Additions	Retirements	
Capital assets not being depreciated:				
Land	\$ 506,971	\$ -	\$ -	\$ 506,971
Construction in progress	-	10,000	-	10,000
Total capital assets not being depreciated	506,971	10,000	-	516,971
Capital assets being depreciated:				
Buildings	5,785,258	48,166	-	5,833,424
Furniture and equipment	3,874,563	471,438	(310,000)	4,036,001
Infrastructure	446,939	126,974	-	573,913
Total capital assets being depreciated	10,106,760	646,578	(310,000)	10,443,338
Less: accumulated depreciation for:				
Buildings	(1,067,433)	(120,460)	-	(1,187,893)
Furniture and equipment	(2,093,930)	(304,910)	310,000	(2,088,841)
Infrastructure	(105,149)	(41,203)	-	(146,352)
Total accumulated depreciation	(3,266,512)	(466,573)	310,000	(3,423,086)
Total capital assets, being depreciated, net	6,840,248	180,004	-	7,020,252
Governmental activities capital assets, net	\$ 7,347,219	\$ 190,004	\$ -	\$ 7,537,223

Depreciation expense was charged to governmental functions as follows:

General government	\$ 171,740
Public safety	252,421
Highway & Streets	1,209
Culture & Recreation	41,203
Total depreciation expense	\$ 466,573

City of Palmview, Texas
Notes to Financial Statements

NOTE 10 - 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:

	General Fund	Debt Service Fund
Delinquent property taxes, unavailable	\$ 235,927	\$ 25,118
Grant revenue, unavailable	14,737	-
Total deferred revenue	\$ 250,664	\$ 25,118

NOTE 11 – LONG-TERM DEBT

A.) Primary Government

Bonds Payable

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.

\$ 924,198

The \$1,319,566 2008A refunding bonds were used to liquidate other liabilities outstanding at the time of issuance.

Bonds payable debt service requirements to maturity are as follows:

<i>During the year ended September 30,</i>	Principal	Interest	Total
2017	\$ 55,948	\$ 69,424	\$ 125,372
2018	60,151	65,221	125,372
2019	64,669	60,703	125,372
2020	69,527	55,845	125,372
2021	74,750	50,622	125,372
All years thereafter	599,153	171,158	770,311
	\$ 924,198	\$ 472,973	\$ 1,397,171

City of Palmview, Texas
Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (Continued)

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 principal and interest payments in the amount of \$64,757 beginning on January 21, 2016 thru January 21, 2029 and one final payment due at maturity. \$ 621,391

Note payable to Lone Star National Bank, originating June 1, 2004 with interest at 5.25%, with a maturity date of February 28, 2028. 1,022,958

Note Payable to Kansas State Bank with annual payments of \$81,636; originating March 2014 with interest at 3.99% with maturity date of December 15, 2017. 193,362

Total notes payable 1,837,711

Less: Current portion of notes payable 233,714

Total notes payable, net of current portion \$ 1,603,997

Note payable debt service requirements to maturity are as follows:

<i>During the year ended September 30,</i>	Principal	Interest	Total
2017	\$ 233,714	\$ 93,553	\$ 327,267
2018	159,834	84,181	244,015
2019	108,280	78,376	186,656
2020	114,134	72,522	186,656
2021	120,304	66,352	186,656
All years thereafter	1,101,445	269,327	1,370,772
	<u>\$ 1,837,711</u>	<u>\$ 664,311</u>	<u>\$ 2,502,022</u>

Capital Leases

The City has entered into lease agreements 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 City accounts for amortization expense related to the capital leases as depreciation expense. The City also currently has purchase options for some of the equipment they are currently leasing. The following summarize the City's debt relating to these assets:

14.02% Lease payable due in monthly installments of \$779 including interest collateralized by Fire Truck (ID: #54746) \$ 23,346

City of Palmview, Texas
Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (Continued)

Capital Leases (Continued)

	12,566
8.42% Lease payable due in monthly installments of \$461 including interest collateralized by 2014 GMC Sierra (ID: #7L502)	
8.46% Lease Payable due in monthly installments of \$539 including interest collateralized by 2014 GMC Sierra (ID: #40510)	14,860
6.84% Lease payable due in annual installments of \$14,927 including interest, collateralized by 2015 Chevrolet Tahoe (ID: #1028678728)	29,855
6.19% Lease payable due in 48 monthly installments of \$1,640 including interest, collateralized by two 2015 Chevrolet Caprices (ID: #1027399873) and (ID: #1027399907)	39,351
5.34% Lease payable due in 72 monthly installments of \$441 including interest, collateralized by a 2015 Chevrolet Silverado (ID: #3GCPCRECOFG324339)	21,994
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.	708,822
4.01% Lease payable due in monthly installments of \$3,061.05 including interest, collateralized by INCODE equipment.	12,121
2.93% Lease payable due in monthly installments of \$2,455.74 including interest, collateralized by (4) Public Works Equipment, a backhoe, trimmer, mower, and tractor.	117,623
6.55% Lease payable due in 36 monthly installments of \$928.20 including interest, collateralized by (2) 2016 Ford Explorers (ID: 78665)	49,871
5.89% Lease payable due in 3 annual installments of \$13,796.42 including interest, collateralized by (4) 2016 Chevrolet Malibu's (ID: 71372) (ID: 83550) (ID: 73544) (ID: 85550)	27,594
6.14% Lease payable due in 36 monthly installments of 1,775.83 including interest, collateralized by (2) Dodge Chargers (ID: 27534) (ID: 27535)	<u>47,949</u>
Total capital lease obligation	1,105,952
Less: Current portion of capital lease obligation	<u>199,463</u>
Total capital lease obligation, net of current portion	<u>\$ 906,489</u>

City of Palmview, Texas
Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016 are as follows:

<i>During the year ended September 30,</i>	Principal	Interest	Total
2017	\$ 199,463	\$ 41,401	\$ 240,864
2018	194,401	33,411	227,812
2019	125,774	25,998	151,772
2020	94,212	21,527	115,739
2021	51,459	18,345	69,804
All years thereafter	440,643	87,624	528,267
	<u>\$ 1,105,952</u>	<u>\$ 228,306</u>	<u>\$ 1,334,258</u>

The assets that have been acquired through capital leases net of accumulated depreciation as of September 30, 2016 are as follows:

<i>For the year ended September 30, 2016</i>	Governmental activities
Furniture & Equipment	\$ 560,084
Less: accumulated depreciation	159,830
Total captial leases, net of accumulated depreciation	<u>\$ 400,254</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.	\$ 556,376
Less: Current portion of notes payable	<u>25,284</u>
Total notes payable, net of current portion	<u>\$ 531,092</u>

City of Palmview, Texas
Notes to Financial Statements

NOTE 11 – LONG-TERM DEBT (Continued)

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

<i>During the year ended September 30,</i>	Principal	Interest	Total
2017	\$ 25,284	\$ 5,564	\$ 30,848
2018	25,537	5,311	30,848
2019	25,792	5,056	30,848
2020	26,050	4,798	30,848
2021	26,311	4,537	30,848
All years thereafter	427,402	34,961	462,363
	\$ 556,376	\$ 60,227	\$ 616,603

B.) Component Unit

2015 Sales Tax Revenue Bond payable to Frost bank, originating on October 6, 2015, with interest at 3.87% with a maturity date of August 15, 2025 for entire amount including accrued interest.

Bonds payable debt service requirement to maturity are as follows:

<i>During the year ended September 30,</i>	Principal	Interest	Total
2017	\$ 45,000	\$ 17,802	\$ 62,802
2018	45,000	16,061	61,061
2019	45,000	14,060	59,060
2020	50,000	12,578	62,578
2021	50,000	10,643	60,643
All years thereafter	225,000	22,059	247,059
	\$ 460,000	\$ 93,203	\$ 553,203

Changes in Long-Term Liabilities

<i>For the year ended September 30, 2016</i>	2015 (Restated)	Increase	Decrease	2016	Current Maturities
Bonds payable	\$ 979,171	\$ -	\$ 54,973	\$ 924,198	\$ 55,948
Notes payable	1,995,017	-	157,306	1,837,711	233,714
Capital leases	946,582	342,408	183,038	1,105,952	199,463
Relending program	581,332	-	24,956	556,376	25,284
Compensated absences	200,253	39,438	-	239,691	38,204
Net pension liability	241,989	186,598	-	428,587	-
Component Unit Bonds Payable	-	505,000	45,000	460,000	45,000
Total long-term debt	\$ 4,944,344	\$ 1,073,444	\$ 465,273	\$ 5,552,515	\$ 597,613

NOTE 12 - 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. The City also rents equipment on an as-needed basis throughout the year. Lease and rent payments totaled \$10,907.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Plan Description

The City of Palmview participates as 1 of the 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City were as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility	60/5, 0/20
Updated service credit	0%
Increased benefits to retirees	0% of CPI

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

Employees Covered by Benefit Terms

At the December 31, 2015 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	22	
Active employees	56	
	79	

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Palmview were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.04% and 2.02% in the calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$41,455, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year	
Overall payroll growth	3.00% per year	
Investment rate of return	6.75%, net of pension plan investment expense, including inflation	

NOTE 13 - DEFINED BENEFIT PENSION PLANS (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 Blue Collar Adjustment, with male rates multiplied by 109% and female rates by 103%.

Based on the size of the City, rates are multiplied by a factor of 100%. 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for the future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

City of Palmview, Texas
Notes to Financial Statements

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

The target allocation and best estimates of 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	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure Total Pension Liability was 6.75%. The projection of cash flow 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

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Net Pension Liability Beginning	\$ 1,155,047	\$ 813,057	\$ 341,990
Changes for the year:			
Service cost	106,919		106,919
Interest	83,195		83,195
Change of benefit terms	-		-
Difference between expected and actual experience	(36,723)		(36,723)
Changes of assumptions	65,694		65,694
Contributions-employer		38,266	(38,266)
Contributions-employee		93,789	(93,789)
Net investment income		1,200	(1,200)
Benefit payments, including refunds of employee contributions	(40,011)	(40,011)	-
Administrative expense		(731)	731
Other changes		(36)	36
Net Changes	179,074	92,477	86,597
Net Pension Liability Ending	\$ 1,334,121	\$ 905,534	\$ 428,587

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$720,804	\$428,587	\$197,788

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.

City of Palmview, Texas
Notes to Financial Statements

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

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

For the year ended September 30, 2016, the City recognized pension expense of \$55,842.

At September 30, 2016, 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 experience	\$ -	\$ 36,797
Changes in actuarial assumptions	57,845	-
Differences between projected and actual investment earnings	49,815	-
Contributions subsequent to the measurement date	30,737	
Total	\$ 138,397	\$ 36,797

\$30,737 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources	
2017	\$	15,664
2018		15,664
2019		15,664
2020		13,915
2021		2,773
Thereafter		7,183
Total	\$	70,863

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City also participates in the cost sharing multiple–employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees.

The City may terminate coverage and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other post-employment benefit”, or OPEB.

The City offers supplemental death benefits to:	Plan Year 2015	Plan Year 2016
Active employees	Yes	Yes
Retirees	Yes	Yes

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$1,379, \$1,214, and \$1,146, respectively, which equaled the required contributions each year.

NOTE 15 - RISK MANAGEMENT

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 \$2,000,000 law enforcement liability in an aggregate amount of \$1,000,000 and errors and omissions liability in an aggregate amount of \$1,000,000. Employees were covered by a health insurance plan. There have been no significant reductions in insurance coverage.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

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.

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 17 – PRIOR PERIOD ADJUSTMENTS

Fund Level – Primary Government

At year-end the City had to make various prior period adjustments to various funds. The General Fund fund-balance resulted in a net decrease of \$36,816. These adjustments were related to overstated payable balances in various accounts as well as understatements and overstatements in due from the debt service, sales tax revenue and deferred property tax revenue. The Debt Service Fund fund-balance increased by \$124,065 due to understated property tax revenues and an overstatement of due to the general fund. The Relending Fund fund-balance increased by \$521,606 due to an overstatement of interest payable and an understatement of notes receivable.

Fund Level – Component Unit

At year-end the MDD had to make a prior period adjustment that resulted in an increase of \$58,590 to the fund-balance. The adjustment was related to understated sales tax in the prior year.

Government-Wide – Primary Government

On the Statement of Activities, the City made various prior period adjustments that resulted in an increase to net position of \$405,762. Such adjustments were related to understated and overstated deferred issuance costs, fixed assets, liabilities for compensated absences, revenues and receivables in various accounts.

Government-Wide – Component Unit

On the Statement of Activities, the Component Unit made various prior period adjustments that resulted in a decrease to net position of \$33,354. Such adjustments were related to understated and overstated revenues and redevelopment asset contributions to the City.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent to year end, the following events or transactions occurred. In May 2017, the Palmview Municipal Development District - Component Unit issued \$1,950,000 in bonds. The Sales Tax Revenue Bonds, Series 2017 will be used for completion of a development project that will improve infrastructure.



**Required Supplementary
Information**

City of Palmview, Texas
Budgetary Comparison Schedule – General Fund

<i>Year ended September 30, 2016</i>	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Taxes				
Property	\$ 1,531,404	\$ 1,803,547	\$ 1,833,273	\$ 29,726
Sales	1,106,500	1,212,839	1,383,190	170,351
Franchise	280,800	248,913	309,604	60,691
Licenses and permits	70,000	75,275	73,562	(1,713)
Intergovernmental revenues and grants	145,000	103,339	404,371	301,032
Charges for Services	1,122,000	1,011,329	998,609	(12,720)
Fines	800,000	746,722	696,150	(50,572)
Interest	50	27	26	(1)
Miscellaneous	223,500	258,603	216,118	(42,485)
Total Revenues	5,279,254	5,460,594	5,914,903	454,309
Expenditures				
Current				
General Government				
Administration				
Personnel Services	148,500	141,706	152,587	(10,881)
Employee Benefits	156,360	158,615	172,782	(14,167)
Supplies	57,700	65,599	83,677	(18,078)
Maintenance	16,500	29,200	25,780	3,420
Purchased Services	1,140,500	1,162,280	1,365,158	(202,878)
Miscellaneous	129,675	386,146	133,587	252,559
	1,649,235	1,943,546	1,933,571	9,975
Inspection				
Personnel Services	78,210	71,915	77,568	(5,653)
Employee Benefits	5,983	5,502	5,934	(432)
Purchased Services	12,900	15,138	14,373	766
Miscellaneous	-	-	5	(5)
	97,093	92,555	97,879	(5,324)
Municipal Court				
Personnel Services	48,761	45,521	49,142	(3,621)
Employee Benefits	3,730	3,482	3,759	(277)
Supplies	100			-
Purchased Services	52,100	36,401	43,721	(7,320)
Miscellaneous	142,650	130,278	142,171	(11,893)
	247,341	215,682	238,794	(23,112)

City of Palmview, Texas
Budgetary Comparison Schedule – General Fund

<i>Year ended September 30, 2016</i>	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Tax Department				
Purchased Services	23,490	58,975	59,207	(232)
	<u>23,490</u>	<u>58,975</u>	<u>59,207</u>	<u>(232)</u>
Alderman				
Purchased Services	23,200	36,916	43,426	(6,510)
Miscellaneous	4,000	3,633	2,725	908
	<u>27,200</u>	<u>40,549</u>	<u>46,151</u>	<u>(5,602)</u>
City Secretary				
Personnel Services	46,310	42,816	46,357	(3,541)
Employee Benefits	3,543	3,275	3,547	(272)
Purchased Services	-	771	819	(48)
Miscellaneous			20	(20)
	<u>49,853</u>	<u>46,862</u>	<u>50,743</u>	<u>(3,881)</u>
Total General Government	<u>2,094,212</u>	<u>2,398,169</u>	<u>2,426,345</u>	<u>(28,176)</u>
Public Safety				
Personnel Services	1,685,762	1,500,132	1,593,979	(93,847)
Employee Benefits	132,011	114,760	121,939	(7,179)
Supplies	126,750	69,380	68,642	737
Maintenance	53,700	98,221	118,036	(19,815)
Purchased Services	209,068	270,843	423,633	(152,790)
Capital Outlay	-	-	36,352	(36,352)
Miscellaneous	46,300	40,403	382,575	(342,172)
Total Public Safety	<u>2,253,591</u>	<u>2,093,739</u>	<u>2,745,156</u>	<u>(651,418)</u>
Highways & Streets				
Street Maintenance				
Personnel Services	215,915	200,122	213,000	(12,878)
Employee Benefits	16,517	15,310	16,295	(985)
Supplies	42,000	36,310	48,666	(12,356)
Maintenance	130,000	114,526	63,093	51,433
Purchased Services	68,000	79,420	106,572	(27,152)
Capital Outlay	7,000	12,346	62,018	(49,672)
Miscellaneous	1,400	1,013	137,664	(136,651)
Total Highway & Streets	<u>480,832</u>	<u>459,047</u>	<u>647,308</u>	<u>(188,261)</u>

City of Palmview, Texas
Budgetary Comparison Schedule – General Fund

<i>Year ended September 30, 2016</i>	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Culture and Recreation				
Parks and Recreation				
Personnel Services	85,683	95,399	127,098	(31,699)
Employee Benefits	6,555	7,298	9,724	(2,426)
Supplies	19,500	24,134	17,155	6,979
Maintenance	25,500	36,826	19,286	17,540
Purchased Services	74,925	57,683	87,145	(29,462)
Capital Outlay	10,500	6,074	-	6,074
Miscellaneous	41,300	30,569	29,501	1,068
Total Culture & Recreation	263,963	257,983	289,909	(31,926)
Debt Service				
Principal	77,192	157,950	157,306	644
Interest and fiscal charges	109,464	93,706	163,072	(69,366)
Total Debt Service	186,656	251,656	320,378	(68,722)
Total Expenditures	5,279,254	5,460,594	6,429,096	(968,503)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	(514,193)	\$ (31,785)
Proceeds from new borrowings			482,408	
Proceeds from sale of asset			65,000	
Fund balance, beginning of year			186,378	
Prior period adjustment			(36,816)	
Fund balance, beginning of year - restated			696,970	
Fund balance, end of year			\$ 182,777	

City of Palmview, Texas

Schedule Employer Contributions Texas Municipal Retirement System

<i>September 30,</i>	2016	2015
Actuarially determined contribution	\$ 41,455	\$ 33,664
Contributions in relation to the actuarially determined contribution	41,455	33,664
Contribution deficiency (excess)	\$ -	\$ -
Covered - employee payroll	\$ 1,875,771	\$ 1,618,090
Contributions as a percentage of covered - employee payroll liability	2.21%	2.08%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen 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	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with Scale BB.

Other Information:

Notes There were no benefit changes during the year.

GASB 68 requires 10 fiscal years of data to be presented in this schedule. However, until a full 10-year trend is complied, the schedule provides the information for those years for which information is available.

City of Palmview, Texas
Schedule of Changes in Net Pension Liability and Related
Ratios - Texas Municipal Retirement System

September 30,	2016	2015
Total pension liability		
Service cost	\$ 106,919	\$ 93,057
Interest	83,195	73,473
Changes of benefit terms	-	-
Differences between expected and actual experience	(36,723)	(5,840)
Changes of assumptions	65,694	-
Benefit payments, including refunds of employee contributions	(40,011)	(17,470)
Net change in total pension liability	179,074	143,220
Total pension liability - beginning	1,155,047	1,011,827
Total pension liability - ending (a)	\$ 1,334,121	\$ 1,155,047
 Plan fiduciary net position		
Contributions - employer	\$ 38,266	\$ 25,717
Contributions - employee	93,789	80,904
Net investment income	1,200	39,229
Benefit payments, including refunds of employee contributions	(40,011)	(17,470)
Administrative expense	(731)	(409)
Other	(37)	(34)
Net change in plan fiduciary net position	92,476	127,937
Plan fiduciary net position - beginning	813,058	685,121
Plan fiduciary net position - ending (b)	\$ 905,534	\$ 813,058
 Net pension liability - ending (a) - (b)	\$ 428,587	\$ 341,989
Plan fiduciary net position as a percentage of the total pension liability	67.87%	70.39%
Covered - employee payroll	\$ 1,875,771	\$ 1,618,090
City's net pension liability as a percentage of covered-employee payroll	22.85%	21.14%

Note: GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, the city will present information for those years for which information is available.



**Other Supplementary
Information**

City of Palmview, Texas
Notes to Required Supplementary Information

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with budget basis (Non GAAP). 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 \$454,309 more than budgeted and expenditures exceeded budget by (\$968,503). The City did not have intergovernmental revenues and grants; with the exception of several reimbursement grants in the Public Safety Department. The departments with a general fund excess of expenditures over appropriations as of September 30, 2016 are as follows:

Department	General Fund Excess of Expenditures over Appropriations
General Government	\$ 28,176
Public Safety	651,418
Highway & Streets	188,261
Culture & Recreation	31,926
Debt Service	68,722
	\$ 968,503

City of Palmview, Texas
Palmview Municipal Development District (Component Unit)
Balance Sheet

<i>September 30,</i>	2016
Assets	
Cash and cash equivalents	\$ 529,488
Taxes receivables, net	78,022
Total assets	\$ 607,510
Liabilities and fund balances	
Liabilities	
Accounts payable	\$ 4,176
Due to City of Palmview	249
Total liabilities	4,425
Fund balances	
Unassigned	603,085
Total net fund balance	603,085
Total liabilities and fund balance	\$ 607,510

City of Palmview, Texas
Palmview Municipal Development District (Component Unit)
Reconciliation of the Fund Balance Sheet
To the Statement of Net Position

<i>Year ended September 30,</i>	2016
Total fund balance - component unit balance sheet	\$ 603,085
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Accrued interest on the bonds is not payable with current financial resources and therefore is not reported in the governmental funds.	(2,225)
Certain long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(460,000)
Net assets of component unit - statement of net position	\$ 140,860

City of Palmview, Texas
Palmview Municipal Development District (Component Unit)
Statement of Revenues, Expenditures,
and Changes in Fund Balance

<i>Year ended September 30,</i>	2016
Revenues	
Tax revenue	\$ 447,233
Total revenues	447,233
Expenditures	
Professional Services	44,346
Administrative expenses	12,838
Development expenditures for city	123,220
Contributions to other governments	461,612
Debt service:	
Bond principal	45,000
Bond interest	16,395
Bond issue costs	42,933
Total expenditures	746,344
Excess (deficiency) of revenues over expenditures	(299,111)
Other financing sources (uses)	
Tax revenues bonds issued	505,000
Total other financing sources (uses)	505,000
Change in fund balance	205,889
Fund balance, beginning of year	338,606
Prior period adjustment	58,590
Fund balance, end of year	\$ 603,085

City of Palmview, Texas
Palmview Municipal Development District (Component Unit)
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

<i>Year ended September 30,</i>	2016
Net change in fund balance - component unit	\$ 205,889
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
MDD fund reports interest expenditures as expenditures in the year paid. However, in the Statement of Activities, interest is accrued on bonds through the fiscal year end.	(2,225)
MDD fund reports redevelopment expenditures as expenditures in the year paid. However, in the Statement of Net Postion, some of these payments are reported as decreases in accounts payable, and the Statement of Activities is not affected.	39,808
MDD fund reports bond issuance as revenue. However, in the Statement of Net Position, bonds are recorded as current and long-term liabilities and the Statement of Activities is not affected.	(505,000)
MDD fund reports bond payments as expenditures. However, in the Statement of Net Position, bond payments are reported as decreases in long-term liabilities, and the Statement of Activities is not affected.	45,000
Change in net assets of component unit - statement of activities	\$ (216,528)

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

To the City Council
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 discretely presented component unit, and each major fund of the City of Palmview, Texas (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses considered to be material weaknesses. (Reference # 2016-1, 2016-2, 2016-3 and 2016-4)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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' Response to Findings

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

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.

Carly Riggs & Ingram, L.L.C.

McAllen, Texas

June 29, 2017

City of Palmview, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2016

Section I – Summary of Auditors’ Results

1. Type of Auditors’ report issued on the basic financial statements: **Modified**
2. Internal control over financial reporting:
 - a. Material weaknesses identified? **Yes**
 - b. Significant deficiencies identified? **No**
3. Noncompliance material to the basic financial statements noted? **No**

Section II – Financial Statement Findings Reported in Accordance with Governmental Auditing Standards

Current Year Findings and Responses

Material Weaknesses:

2016-1 Accounting for Capital Assets

Condition: The City does not have support for fixed asset balances.

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

Cause: Management does not have procedures in place to capture additions and deletions of fixed assets and does not maintain records of existing assets.

Effect: Potential misstatements of capital assets, accumulated depreciation, and depreciation expense.

Recommendation: Maintain an updated schedule of fixed assets throughout the year, identify all capital assets that belong to the City and implement procedures that ensure asset additions and deletions are properly tracked and recorded.

Auditee's Response: The City will adopt the recommendation to: 1) maintain an updated schedule of fixed assets; and 2) implement procedures that ensure asset additions and deletions are properly tracked and recorded.

2016-2 Accounting for Non-current Liabilities

Condition: The City did not maintain a schedule of outstanding debt 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 consistent basis.

Effect: No current schedules of the long-term debt were available to properly reflect balances in statement of net position.

Recommendation: Maintain updated schedule of outstanding debt throughout the year.

Auditee's Response: The City will adopt the recommendation to maintain updated Schedule of Outstanding Debt. The City does monitor payments on outstanding long-term debt such as bonds and loans.

2016-3 Fragmented and Inconsistent Accounting Records and Practices

Condition: The City is not consistent in recording of transactions throughout the year.

Criteria: Governmental entities should apply the modified accrual basis of accounting at the fund level and the full accrual basis at the government-wide level.

City of Palmview, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2016

Cause: The City's set of books were not consistently maintained at the fund level throughout the year because of accounting practices that varied from fund to fund that impacted the recording of financial transactions.

Effect: Numerous adjustments were required to properly report financial statements at year end.

Recommendation: Implement policies and procedures that support consistent and timely record keeping of financial transactions.

Auditee's Response: The City will adopt the recommendation to implement policies and procedures for record keeping of financial transactions.

2016-4 Year-End Financial Reporting

Condition: The City did not apply GASB 34 and GASB 68 adjustments to year-end balances.

Criteria: The City is required to issue an Annual Financial Report in accordance with U.S. GAAP including an Management's Discussion and Analysis (MD&A) section and required supplementary information.

Cause: The City did not have an in-house position at year-end that could take on or oversee that such responsibilities are met by the City.

Effect: Numerous audit adjustments were required to properly report financial statements at year end in conformity with GASB 34 and GASB 68 and assistance was required in drafting the MD&A and required supplementary information.

Recommendation: An individual with the required competencies must be designated by the City to carry out such responsibilities.

Auditee's Response: The City will adopt the recommendation to employ professional staff in its Finance Department to ensure compliance with GASB 34 and GASB 68. The City is presently recruiting a Finance Director.

Significant Deficiencies:

None identified.

Section III – Findings Relating to Federal/State Awards

None identified.