

CITY OF PALMVIEW, TEXAS  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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CITY OF PALMVIEW, TX  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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## Management's Discussion and Analysis

As management of the City of Palmview, we offer to 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, 2017. Please read it in conjunction with the independent auditor's report on page 7, and City's Basic Financial Statements, which begin on page 11.

### FINANCIAL HIGHLIGHTS

- The assets of City exceeded liabilities at the close of the most recent fiscal year by \$2,431,657 (net assets).
- The City's total net position as restated decreased by \$1,168,774. Total revenues reflect a decrease of 25,405 compared to prior year. Expenses increased by 439,020.
- At the end of the current fiscal year, unreserved fund balance for the general fund as restated was \$(647,014) a decrease of \$829,791 compared with prior year restated balance.
- The City of Palmview total long-term debt decreased by \$1,063,282 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 financial statements. This report contains other supplementary information in addition to the basic financial statement 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 *statements 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 the net position may serve as a useful indicator of whether the financial position of the City of Palmview is improving or deteriorating.

The *statements 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 flow in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish function of the City of Palmview that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City of Palmview include general government, public safety, and culture and recreation. The City of Palmview does not have business-type activities.

The government-wide financial statement 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 11-12 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objective. 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 function 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 balance 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 revenue, expenditures, and changes in fund balances for the general fund, recycling fund and the debt service fund, which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

**Notes to the financial statements.** The notes provide 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 18-47 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 48-51 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Palmview, assets exceeded liabilities by \$2,431,657 at the close of the most recent fiscal year.

<i>As of September 30,</i>	2017	2016
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Current other assets	\$1,538,586	\$1,619,775
Capital assets	7,345,603	7,537,223
<b>Total assets</b>	<b>8,884,189</b>	<b>9,156,998</b>
Long-term liabilities outstanding	4,029,233	5,092,515
Other liabilities	2,423,299	464,052
<b>Total liabilities</b>	<b>6,452,532</b>	<b>5,556,567</b>
Net investment in capital assets	2,137,585	3,668,963
Restricted net assets		264,370
Unrestricted net assets	294,072	-332,902
<b>Total net position</b>	<b>\$2,431,657</b>	<b>\$3,600,431</b>

By far the largest portion of the City’s net assets, \$2,431,657 reflect its investment in capital assets (e.g., land, building, 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.

## 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, 2017.

<b><i>During the year ended September 30,</i></b>	2017	2016
	<u>Governmental</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>
Program revenues		
Charges for services	\$2,006,859	\$1,768,322
Operating grants and contributions	317,611	567,822
General revenues		
Property taxes	2,095,193	1,917,565
Sales taxes	1,354,867	1,383,190
Franchise taxes	312,073	309,604
Interest earned	20,905	26,170
Miscellaneous revenue	95,286	255,527
<b>Total revenue</b>	<b>6,202,794</b>	<b>6,228,199</b>
Expenses		
General government	3,093,396	2,577,000
Public safety	2,735,529	2,549,427
Highway and streets	474,502	443,497
Cultural and recreation	188,365	295,454
Debt service	154,955	342,349
Pension expense	-	-
<b>Total expenses</b>	<b>6,646,747</b>	<b>6,207,727</b>

The revenues generated were \$6,202,794 reflecting a decrease of \$25,405 to last year due to increase in tax rates and annexation in recent years. Expenses were \$6,646,747.

## 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.

As the end of the current fiscal year, the City of Palmview's governmental funds reported combined ending fund balances of \$(41,172), a decrease of \$957,414 in comparison with the prior year restated balance.

The Debt Service fund has a total fund balance of \$(97,819).

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2017, the City had \$7,345,603, net of depreciation, invested in a broad range of capital assets, including police and fire equipment, facilities, land, and vehicles. More detailed information about the City's capital assets is presented in the notes to the financial statements.

<i>As of September 30,</i>	2017	2016
Land	\$895,510	\$506,971
Construction in progress	-	10,000
Buildings	4,570,520	4,645,531
Furniture and equipment	1,602,750	1,947,160
Infrastructure	276,823	427,561
Total capital assets	\$7,345,603	\$7,537,223



## Debt

At year-end, the City had outstanding long-term obligation of \$4,179,533, a decrease of approximately \$244,704 over the prior year. The table below reflects the outstanding debt as of September 30<sup>th</sup>. 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 bond rating.

<i>As of September 30,</i>	2017	2016
Bonds payable	\$868,250	\$924,198
Notes payable	1,699,077	1,837,711
Capital leases	1,081,114	1,105,952
Relending	531,092	556,376
<b>Total long-term debt</b>	<b>\$4,179,533</b>	<b>\$4,424,237</b>

## ECONOMIC FATOR AND NEXT YEAR'S BUDGETS AND RATES

- The property tax levy used in preparing the 2018 budget was up \$158,602 or 8% from the prior year.
- The 2018 Budget increase was prepared using an adopted property tax rate of \$.5001 per \$100 valuation. There was increase of 2.5 cents from the prior year property tax rate.
- The 2018 General Fund operating budget was prepared estimating a balance budget at September 30, 2018.

## 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 Manager or the Finance Director at:

City of Palmview  
403 W. Veterans Blvd.  
Palmview, Texas 78572  
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*Independent Auditor's Report*

Honorable Mayor and  
The City Council  
City of Palmview, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palmview, Texas (the City), as of and for the year ended September 30, 2017, 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*

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

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>2</sup> 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*

As of September 30, 2017, the City of Palmview had 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

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principles generally accepted in the United States of America require that these capital assets be depreciated, which would decrease the assets and net assets and increase expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities listed above is not reasonably determinable.

*Opinions*

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palmview, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The combining and individual nonmajor fund financial statements and component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

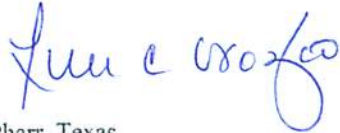
**Other Reporting Required by *Government Auditing Standards***

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## CERTIFIED PUBLIC ACCOUNTANT

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Palmview, Texas's internal control over financial reporting and compliance.



Pharr, Texas  
May 30, 2018

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## BASIC FINANCIAL STATEMENTS

CITY OF PALMVIEW, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

EXHIBIT A-1

Data Control Codes	Primary Government	Component Unit Municipal Development District
	Governmental Activities	
<b>ASSETS</b>		
1010 Cash and Cash Equivalents	\$ 509,545	\$ 1,932,569
1050 Taxes Receivable, Net	359,018	-
1150 Accounts Receivable Net	439,049	-
1151 Allowance for Uncollectible Accounts	(15,181)	-
1260 Due from Other Governments	204,414	-
1300 Due from Other Funds	(89,091)	89,091
Capital Assets:		
1710 Land Purchase and Improvements	895,510	-
1720 Infrastructure, Net	276,823	-
1730 Buildings, Net	4,570,520	-
1750 Furniture and Equipment, Net	1,602,750	-
1000 Total Assets	<u>8,753,357</u>	<u>2,021,660</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
1997 Deferred Outflow Related to Pension Plan	41,741	-
1500 Total Deferred Outflows of Resources	<u>41,741</u>	<u>-</u>
<b>LIABILITIES</b>		
2010 Accounts Payable	487,609	54,225
2020 Wages and Salaries Payable	621,717	-
2030 Compensated Absences Payable	599,898	-
2060 Retainage Payable	20,000	-
2140 Accrued Interest Payable	2,754	-
2230 Unearned Revenues	43,839	-
2240 Notes Payable - Current	281,689	-
2250 Bonds Payable - Current	62,424	140,000
2260 Capital Leases Payable - Current	240,673	-
Noncurrent Liabilities:		
2502 Bonds Payable - Noncurrent	3,594,747	2,255,000
2580 Net Pension Liability	434,486	-
2000 Total Liabilities	<u>6,389,836</u>	<u>2,449,225</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
2602 Deferred Inflow Related to Pension Plan	(26,395)	-
2500 Total Deferred Inflows of Resources	<u>(26,395)</u>	<u>-</u>
<b>NET POSITION</b>		
3200 Net Investment in Capital Assets	2,137,585	(2,395,000)
3900 Unrestricted	294,072	1,967,435
3000 Total Net Position	<u>\$ 2,431,657</u>	<u>\$ (427,565)</u>

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

CITY OF PALMVIEW, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Data Control Codes	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
110 Legislative	\$ 52,949	\$ -	\$ -
120 Judicial	296,189	-	-
130 Executive	50,770	-	-
150 Financial Administration	2,888,090	1,352,813	2,037
160 Inspections	111,144	-	-
190 Other General Government Functions	55,460	-	-
210 Police	2,307,937	654,046	315,574
220 Fire Protection	427,592	-	-
310 Highways and Streets	474,502	-	-
510 Recreation	188,365	-	-
710 Principal on Debt	31,919	-	-
720 Interest on Debt	123,036	-	-
800 Capital Outlay	(361,206)	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 6,646,747</u>	<u>\$ 2,006,859</u>	<u>\$ 317,611</u>
<b>Primary Government:</b>			
991 Nonmajor Component Unit	\$ 871,102	\$ -	\$ -
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 871,102</u>	<u>\$ -</u>	<u>\$ -</u>

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
5011	Property Taxes, Levied for Debt Service
5120	General Sales and Use Taxes
5170	Franchise Tax
5190	Penalty and Interest on Taxes
5300	Grants and Contributions Not Restricted
5600	Investment Earnings
5700	Miscellaneous Revenue
	Transfers In (Out):
	Total General Revenues and Transfers
	Change in Net Position
	Net Position-- Beginning
	Prior Period Adjustment
	Net Position--Ending

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



Net (Expense) Revenue and Changes in Net Position	
<u>Primary Government</u>	<u>Component Unit</u>
Governmental Activities	Municipal Development District
(52,949)	-
(296,189)	-
(50,770)	-
(1,533,240)	-
(111,144)	-
(55,460)	-
(1,338,317)	-
(427,592)	-
(474,502)	-
(188,365)	-
(31,919)	-
(123,036)	-
361,206	-
<u>(4,322,277)</u>	<u>-</u>
-	(871,102)
<u>-</u>	<u>(871,102)</u>
1,971,590	-
123,603	-
1,354,867	430,199
312,073	-
70,655	-
8,869	-
20,905	-
(29,774)	-
45,536	-
<u>3,878,324</u>	<u>430,199</u>
(443,953)	(440,903)
3,600,431	140,860
(724,820)	(127,523)
<u>\$ 2,431,658</u>	<u>\$ (427,566)</u>

CITY OF PALMVIEW, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

Data Control Codes	General Fund	ReLending Program	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1010 Cash and Cash Equivalents	\$ 207,646	\$ 283,571	\$ 18,328	\$ 509,545
1050 Taxes Receivable	386,648	-	68,303	454,951
1051 Allowance for Uncollectible Taxes (credit)	(71,469)	-	(24,464)	(95,933)
1150 Accounts Receivable Net	120	438,929	-	439,049
1151 Allowance for Uncollectible Accounts	-	(15,181)	-	(15,181)
1260 Due from Other Governments	204,414	-	-	204,414
1300 Due from Other Funds	125,901	-	-	125,901
1000 Total Assets	<u>\$ 853,260</u>	<u>\$ 707,319</u>	<u>\$ 62,167</u>	<u>\$ 1,622,746</u>
<b>LIABILITIES</b>				
2010 Accounts Payable	\$ 476,459	\$ 1,150	\$ 10,000	\$ 487,609
2020 Wages and Salaries Payable	621,717	-	-	621,717
2060 Retainage Payable	20,000	-	-	20,000
2080 Due to Other Funds	109,091	-	105,901	214,992
2140 Accrued Interest Payable	-	2,754	-	2,754
2230 Unearned Revenues	273,008	-	43,839	316,847
2000 Total Liabilities	<u>1,500,275</u>	<u>3,904</u>	<u>159,740</u>	<u>1,663,919</u>
<b>FUND BALANCES</b>				
3590 Other Assigned Fund Balance	-	703,414	(97,573)	605,841
3600 Unassigned Fund Balance	(647,014)	-	-	(647,014)
3000 Total Fund Balances	<u>(647,014)</u>	<u>703,414</u>	<u>(97,573)</u>	<u>(41,173)</u>
4000 Total Liabilities and Fund Balances	<u>\$ 853,261</u>	<u>\$ 707,318</u>	<u>\$ 62,167</u>	<u>\$ 1,622,746</u>

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

CITY OF PALMVIEW, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

<b>Total Fund Balances - Governmental Funds</b>	\$	(41,172)
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		2,543,067
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2015 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		245,703
<p>This is the second year of the implementation of GASB 68 for the TMRS Pension plan. This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$434,486, a deferred Resource Inflow of \$26,395 and a Deferred Resource Outflow of \$41,741. The net effect of these was to decrease the ending net position.</p>		
		(36,122)
<p>The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(458,696)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		178,878
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,431,658</b>

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

CITY OF PALMVIEW, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Data Control Codes	General Fund	ReLending Program	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
5110 Property Taxes	\$ 1,839,704	\$ -	\$ 123,603	\$ 1,963,307
5120 General Sales and Use Taxes	1,354,867	-	-	1,354,867
5170 Franchise Tax	312,073	-	-	312,073
5190 Penalty and Interest on Taxes	70,655	-	-	70,655
5200 Licenses and Permits	92,456	-	-	92,456
5300 Intergovernmental Revenue and Grants	315,574	-	2,037	317,611
5400 Charges for Services	701,348	-	-	701,348
5510 Fines	654,046	-	-	654,046
5610 Investment Earnings	23	20,882	-	20,905
5620 Rents and Royalties	144,000	-	-	144,000
5640 Contributions & Donations from Private Sources	7,869	-	1,000	8,869
5700 Other Revenue	271,720	581	112,934	385,235
5020 Total Revenues	<u>5,764,335</u>	<u>21,463</u>	<u>239,574</u>	<u>6,025,372</u>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
0110 Legislative	52,949	-	-	52,949
0120 Judicial	296,189	-	-	296,189
0130 Executive	50,770	-	-	50,770
0150 Financial Administration	2,033,065	-	-	2,033,065
0160 Inspections	111,144	-	-	111,144
0190 Other General Government Functions	53,168	2,292	-	55,460
Public Safety:				
0210 Police	2,225,960	-	81,977	2,307,937
0220 Fire Protection	427,592	-	-	427,592
Public Works:				
0310 Highways and Streets	474,502	-	-	474,502
Culture and Recreation:				
0510 Recreation	188,365	-	-	188,365
Debt Service:				
0710 Principal on Debt	151,252	-	125,371	276,623
0720 Interest on Debt	121,036	-	2,000	123,036
6030 Total Expenditures	<u>6,185,992</u>	<u>2,292</u>	<u>209,348</u>	<u>6,397,632</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(421,657)</u>	<u>19,171</u>	<u>30,226</u>	<u>(372,260)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7914 Noncurrent Loans	45,536	-	-	45,536
7080 Total Other Financing Sources (Uses)	<u>45,536</u>	<u>-</u>	<u>-</u>	<u>45,536</u>
1200 Net Change in Fund Balances	(376,121)	19,171	30,226	(326,724)
0100 Fund Balance - October 1 (Beginning)	182,777	707,249	26,216	916,242
1300 Prior Period Adjustment	(453,669)	(23,006)	(154,015)	(630,690)
3000 Fund Balance - September 30 (Ending)	<u>\$ (647,013)</u>	<u>\$ 703,414</u>	<u>\$ (97,573)</u>	<u>\$ (41,172)</u>

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

CITY OF PALMVIEW, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(326,724)
<p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.</p>		
		-0-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2015 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>		
		245,703
<p>The implementation of the requirements of GASB 68 for this fiscal year resulted in a prior period adjustment to record the retroactive impact. This is NOT included in the explanation as to why the CHANGE in net position is different on Exhibit B-1 than the change in fund balance on Exhibit C-3. The entries required by GASB 68 did require that some expenses on B-1 be adjusted. The net effect on the change in net position on Exhibit B-1 is an increase of \$(36,122)</p>		
		(36,122)
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.</p>		
		(458,696)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.</p>		
		131,886
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(443,953)</b>

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

CITY OF PALMVIEW, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

**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-City Council 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 City Council 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:

<b>Fixed Asset Class</b>	<b>Estimated Useful Lives (years)</b>
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, 2017, the carrying amount of the City's deposits (cash) was \$499,299 and the bank balance was \$532,830, 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, 2017, 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, 2017 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, 2017, 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, 2017, 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, 2017, 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, 2017, 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, 2017, the carrying amount of the MDD's deposits (cash) was \$1,932,569 and the bank balance was \$1,938,169, 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, 2017, 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.



**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, 2017, property tax rates were \$.4457 and \$.0294 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, 2017, is as follows:

Debt Service Due To	
General Fund	105,901
General Fund Due To	
Municipal Development District	<u>89,091</u>
Total Due To	<u><u>194,992</u></u>
General Fund Due From	
Debt Service Fund	105,901
Municipal Development District Due From	
General Fund	<u>89,091</u>
Total Due From	<u><u>194,992</u></u>

**NOTE 6 - RECEIVABLES**

Receivables at September 30, 2017 were as follows:

<u>Governmental Activities:</u>	<u>Receivable</u>				
	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
General Fund	\$431,711	\$184,889	105,901	120	\$722,621
Debt Service Fund	(57,002)	-	-	-	(57,002)
Total Receivables	\$374,709	\$184,889	\$105,901	\$120	\$665,620
Less: Allowance for Uncollectible	(94,681)	-	-	-	(94,681)
<b>Net Total Receivable</b>	<b>\$280,028</b>	<b>\$184,889</b>	<b>\$105,901</b>	<b>\$120</b>	<b>\$570,939</b>

**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 15<sup>th</sup> 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	438,929	(15,181)	423,748
Total Receivables	438,929	(15,181)	423,748

**NOTE 7 – NOTE RECEIVABLES (Continued)**

The annual requirements by participants of the Relending Fund Accounts Receivable at September 30, 2017 are as follows:

<i>During the year ended September 30,</i>	
2018	70,591
2019	60,286
2020	53,924
2021	56,297
2022	59,413
All years thereafter	138,418
<b>Total</b>	<b>\$438,929</b>

**NOTE 8 - DISAGGREGATION OF OTHER LIABILITIES**

At September 30, 2017, the City had the following other liabilities:

<b>Payable to</b>	<b>Governmental Activities</b>
Customer Deposits	20,000
Total other Liabilities	20,000

## NOTE 9 - CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2017 was as follows:

<i>For the Years Ended September 30,</i>	Primary Government				2017
	2016	Additions	Retirements	Adjustments	
Capital assets not being depreciated:					
Land	506,971			388,539	895,510
Construction in progress	10,000			(10,000)	-
<b>Total capital assets not being depreciated</b>	<b>516,971</b>				<b>895,510</b>
Capital assets being depreciated:					
Buildings	5,833,424	100,010		(48,166)	5,885,268
Furniture and equipment	4,036,001	173,750		(1,721,451)	2,488,300
Infrastructure	573,913	87,446		(220,874)	440,485
<b>Total capital assets being depreciated</b>	<b>10,443,338</b>	<b>361,206</b>		<b>(1,990,491)</b>	<b>8,814,053</b>
Less: accumulated depreciation for:					
Buildings	(1,187,893)	(124,657)		(2,198)	(1,314,748)
Furniture and equipment	(2,088,841)	(306,433)		1,509,724	(885,550)
Infrastructure	(146,352)	(27,606)		10,296	(163,662)
<b>Total accumulated depreciation</b>	<b>(3,423,086)</b>	<b>(458,696)</b>		<b>1,517,822</b>	<b>(2,363,960)</b>
<b>Total capital assets, being depreciated, net</b>	<b>7,020,252</b>				<b>6,450,093</b>
<b>Governmental activities capital assets, net</b>	<b>7,537,223</b>				<b>7,345,603</b>

Depreciation expense was charged to governmental functions as follows:

General government	\$216,183
Public safety	215,679
Highway & Streets	26,834
Culture & Recreation	-
<b>Total depreciation expense</b>	<b>\$458,696</b>

**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:

	<b>General Fund</b>	<b>Debt Service Fund</b>
Delinquent property taxes, unavailable	\$273,008	\$25,567
<b>Total deferred revenue</b>	<b>\$273,008</b>	<b>\$25,567</b>

**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.

868,250

Bonds payable debt service requirements to maturity are as follows:

<b><i>During the year ended September 30,</i></b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	62,424	62,948	125,372
2019	66,949	58,422	125,372
2020	71,803	53,569	125,372
2021	77,009	48,363	125,372
2022	82,592	42,780	125,372
All years thereafter	507,472	114,911	622,383
<b>Total</b>	<b>868,250</b>	<b>380,992</b>	<b>1,249,242</b>

**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.	\$ 591,380
Note payable to Lone Star National Bank, originating June 1, 2004 with interest at 5.25%, with a maturity date of February 28, 2028.	955,511
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.	<u>152,186</u>
Total notes payable	1,699,077
Less: Current portion of notes payable	<u>256,152</u>
Total notes payable, net of current portion	<u>\$ 1,442,925</u>

Note payable debt service requirements to maturity are as follows:

<b><i>During the year ended September 30,</i></b>	Principal	Interest	Total
2018	256,152	86,177	342,329
2019	109,505	77,151	186,656
2020	115,339	71,317	186,656
2021	121,484	65,172	186,656
2022	127,956	58,700	186,656
All years thereafter	968,641	205,765	1,174,406
<b>Total</b>	<b>1,699,077</b>	<b>564,283</b>	<b>2,263,360</b>

**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)	\$ 18,349
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**NOTE 11 – LONG-TERM DEBT (Continued)****Capital Leases (Continued)**

8.42% Lease payable due in monthly installments of \$461 including interest collateralized by 2014 GMC Sierra (ID: #7L502)	8,817
8.46% Lease Payable due in monthly installments of \$539 including interest collateralized by 2014 GMC Sierra (ID: #40510)	11,219
6.84% Lease payable due in annual installments of \$14,927 including interest, collateralized by 2015 Chevrolet Tahoe (ID: #1028678728)	54,215
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)	19,220
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.	655,029
3.28% Lease Payable due in monthly installments of \$1,875.11 including interest, collateralized by (4) 2017 Chevrolet Silverado's.	93,501
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.	90,457
6.55% Lease payable due in 36 monthly installments of \$928.20 including interest, collateralized by (2) 2016 Ford Explorers (ID: 78665)	34,316
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>29,045</u>
Total capital lease obligation	1,081,114
Less: Current portion of capital lease obligation	<u>240,673</u>
Total capital lease obligation, net of current portion	<u><u>\$ 840,441</u></u>

**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, 2017 are as follows:

<b><i>During the year ended September 30,</i></b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	240,673	44,545	285,218
2019	198,488	32,917	231,406
2020	117,059	22,972	140,031
2021	74,076	19,009	93,085
All years thereafter	450,818	87,675	538,493
<b>Total</b>	<b>1,081,114</b>	<b>207,118</b>	<b>1,288,232</b>

The assets that have been acquired through capital leases net of accumulated depreciation as of September 30, 2017 are as follows:

***For the year ended September 30, 2017***

	<b>Governmental activities</b>
Furniture & Equipment	451,576
Less: accumulated depreciation	<u>398,329</u>
Total captial leases, net of accumulated depreciation	53,247

***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.

Loan Payable to USDA Balance	531,092
Less: Current portion of notes payable	<u>25,537</u>
Total notes payable, net of current portion	<u>\$ 505,555</u>



**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
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
2022	26,837	4,011	30,848
All years thereafter	375,028	30,950	405,978
<b>Total</b>	<b>505,555</b>	<b>54,663</b>	<b>560,218</b>

**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. Balance at September 30, 2017 \$460,000.

2017 Sales Tax Revenue Bond payable to Frost Bank, originating on May 10, 2017, with interest at 3.79% with a maturity date of August 15, 2032 for the entire amount including accrued interest. Balance at September 30, 2017 \$1,980,000.

Bonds payable debt service requirement to maturity are as follows:

<i>During the year ended September 30,</i>	Principal	Interest	Total
2018	140,000	92,884	232,884
2019	145,000	87,540	232,540
2020	150,000	82,006	232,006
2021	160,000	76,283	236,283
2022	160,000	70,177	230,177
All years thereafter	1,640,000	330,369	1,970,369
<b>Total</b>	<b>2,395,000</b>	<b>739,259</b>	<b>3,134,259</b>

**Changes in Long-Term Liabilities**

<i>For the year ended September 30, 2017</i>	2016	Increase	Decrease	2017	Current Maturities
Bonds payable	\$924,198	-	55,948	868,250	62,424
Notes payable	1,837,711	-	138,634	1,699,077	256,152
Capital leases	1,105,952	-	24,838	1,081,114	240,673
Relending program	556,376	-	25,284	531,092	25,537
Compensated absences	239,691	480,560	120,353	599,898	
Net pension liability	428,587			428,587	
Component Unit Bonds Payable	460,000	1,980,000	45,000	2,395,000	140,000
<b>Total long-term debt</b>	<b>\$5,552,515</b>	<b>2,460,560</b>	<b>410,057</b>	<b>\$7,603,018</b>	<b>724,786</b>

## **NOTE 12 - OPERATING LEASES**

The City rents three Saving 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 publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

### ***Benefits Provided***

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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, 2016 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	27
Active employees	<u>58</u>
	86

***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 2.02% and 2.02% in the calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$43,741, and were equal to the required contributions.

***Net Pension Liability***

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 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, 2016 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, 2016, the TMRS Board approved a new portfolio target allocation.

**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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
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%
<b>Total</b>	<b>100.0%</b>	

***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.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)**

***Changes in Net Pension Liability***

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a)- (b)</b>
<b>Net Pension Liability Beginning</b>	\$1,334,121	\$905,534	\$428,587
Changes for the year:			
Service cost	131,327		131,327
Interest	93,372		93,372
Change of benefit terms	-		-
Difference between expected and actual experience	(5,771)		(5,771)
Changes of assumptions	-		-
Contributions-employer		43,741	(43,741)
Contributions-employee		108,714	(108,714)
Net investment income		61,302	(61,302)
Benefit payments, including refunds of employee contributions	(32,982)	(32,982)	-
Administrative expense		(691)	691
Other changes		(37)	37
<b>Net Changes</b>	<b>185,946</b>	<b>180,047</b>	<b>5,899</b>
<b>Net Pension Liability Ending</b>	<b>1,520,067</b>	<b>1,085,581</b>	<b>434,486</b>

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**NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)*****Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

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

<b>1% Decrease 5.75%</b>	<b>Current Single Rate Assumption 6.75%</b>	<b>1% Increase 7.75%</b>
\$756,350	\$434,846	\$179,437

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

**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, 2017, the City recognized pension expense of \$70,505.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	-	5,059
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings	-	142
Contributions Subsequent to Measurement Period	41,741	
<b>Total</b>	<b>41,741</b>	<b>5,201</b>

\$41,741 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:

	<b>Net Deferred Outflows (Inflows) of Resources</b>
2017	14,196
2018	14,196
2019	13,167
2020	2,027
2021	2,061
Thereafter	2,910
<b>Total</b>	<b>49,997</b>



## 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:	<b>Plan Year 2016</b>	<b>Plan Year 2017</b>
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 2017, 2016, and 2015 were \$1,674, \$1,433, and \$1,214, 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

The following table illustrates the effects of the prior period adjustments on the statement of net position and governmental fund balance at September 30, 2017.

	General Fund	Debt Service Fund	Relending Economic Development	Asset & Forfeiture	Municipal Development District	Total
Prior Period Adjustments - Governmental Activities	(453,669)	(122,657)	(23,006)	(31,358)	(127,523)	(758,213)
<b>Prior period Adjustments - Government Wide</b>						
Adjustment on Fixed Assets						(724,820.00)

## NOTE 18 - SUBSEQUENT EVENT

Management has evaluated subsequent events through May 30, 2018 the date the financial statements were available to be issued.

Subsequent to year end, on March 6, 2018 the City of Palmview issued \$2.8 million bond for a street repavement project.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PALMVIEW, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
Taxes:					
5110	Property Taxes	\$ 1,900,000	\$ 1,841,846	\$ 1,839,704	\$ (2,142)
5120	General Sales and Use Taxes	1,301,000	1,354,867	1,354,867	-
5170	Franchise Tax	998,000	966,325	963,571	(2,754)
5190	Penalty and Interest on Taxes	72,397	70,652	70,655	3
5200	Licenses and Permits	80,000	92,456	92,456	-
5300	Intergovernmental Revenue and Grants	135,000	315,574	315,574	-
5400	Charges for Services	70,000	49,850	49,850	-
5510	Fines	900,000	654,046	654,046	-
5610	Investment Earnings	-	23	23	-
5620	Rents and Royalties	144,000	144,000	144,000	-
5640	Contributions & Donations from Private Sources	15,000	7,610	7,869	259
5700	Other Revenue	282,050	269,198	271,720	2,522
5020	Total Revenues	5,897,447	5,766,446	5,764,335	(2,111)
<b>EXPENDITURES:</b>					
Current:					
General Government:					
0110	City Council	35,000	40,634	52,949	(12,315)
0120	Judicial	227,963	296,189	296,189	-
0130	City Secretary	53,419	50,770	50,770	-
0150	Financial Administration	2,081,347	2,140,368	2,086,233	54,135
0160	Planning/Code Enforcement	117,768	111,144	111,144	-
Public Safety:					
0210	Police	1,981,742	2,265,202	2,225,960	39,242
0220	Fire Protection	554,503	425,036	427,592	(2,556)
Public Works:					
0310	Public Works	559,894	481,369	474,502	6,867
Culture and Recreation:					
0510	Recreation	285,811	188,102	188,365	(263)
6030	Total Expenditures	5,897,447	5,998,814	5,913,704	85,110
1200	Net Change	-	(232,368)	(149,369)	82,999
0100	Fund Balance - October 1 (Beginning)	182,777	182,777	182,777	-
3000	Fund Balance - September 30 (Ending)	\$ 182,777	\$ (49,591)	\$ 33,408	\$ 82,999

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

CITY OF PALMVIEW, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2017

EXHIBIT G-6

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
<b>A. Total Pension Liability</b>			
Service Cost	\$ 131,327	\$ 106,919	\$ 93,057
Interest (on the Total Pension Liability)	93,372	83,195	73,473
Changes of Benefit Terms	-0-	-0-	-0-
Difference between Expected and Actual Experience	(5,771)	(36,723)	(5,840)
Changes of Assumptions	-0-	65,694	-0-
Benefit Payments, including refunds of employee contributions	(32,982)	(40,011)	(17,470)
Net change in Total Pension Liability	\$ 185,946	\$ 179,074	\$ 143,220
Total Pension Liability - Beginning	1,334,121	1,155,047	1,011,827
Total Pension Liability - Ending	\$ 1,520,067	\$ 1,334,121	\$ 1,155,047
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 43,741	\$ 38,266	\$ 25,717
Contributions - Employee	108,714	93,789	80,904
Net Investment Income	61,302	1,200	39,229
Benefit Payments, including refunds of employee contributions	(32,982)	(40,011)	(17,470)
Administrative Expense	(691)	(731)	(409)
Other	(37)	(37)	(34)
Net Change in Plan Fiduciary Net Position	\$ 180,047	\$ 92,476	\$ 127,937
Plan Fiduciary Net Position - Beginning	905,534	813,058	685,121
Plan Fiduciary Net Position - Ending	\$ 1,085,581	\$ 905,534	\$ 813,058
<b>C. Net Pension Liability</b>	\$ 434,486	\$ 428,587	\$ 341,989
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	71.42%	67.87%	70.39%
<b>E. Covered Employee Payroll</b>	\$ 2,174,287	\$ 1,875,771	\$ 1,618,090
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	19.98%	22.85%	21.14%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only three years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF PALMVIEW, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM  
SEPTEMBER 30, 2017

EXHIBIT G-9

	2017	2016	2015
Actuarially Determined Contribution	\$ 43,741	\$ 41,455	\$ 33,664
Contributions in Relation to the Actuarially Determined Contributions	43,741	41,455	33,664
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
Covered Employee Payroll	\$ 2,174,287	\$ 1,875,771	\$ 1,618,090
Contributions as a Percentage of Covered Employee Payroll	2.01%	2.21%	2.08%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**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 Manager 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 \$2,111 less than budgeted and expenditures were under budget by \$85,110. The City did not have intergovernmental revenues and grants; with the exception of several reimbursement grants in the Public Safety Department.

ADDITIONAL SUPPLEMENTARY INFORMATION



CITY OF PALMVIEW, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2017

Data Control Codes	202 Asset Forfeiture	500 Debt Service	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
1010 Cash and Cash Equivalents	\$ 10,246	\$ 8,082	\$ 18,328
1050 Taxes Receivable	-	68,303	68,303
1051 Allowance for Uncollectible Taxes (credit)	-	(24,464)	(24,464)
1000 Total Assets	<u>\$ 10,246</u>	<u>\$ 51,921</u>	<u>\$ 62,167</u>
<b>LIABILITIES</b>			
2010 Accounts Payable	\$ 10,000	\$ -	\$ 10,000
2080 Due to Other Funds	-	105,901	105,901
2230 Unearned Revenues	-	43,839	43,839
2000 Total Liabilities	<u>10,000</u>	<u>149,740</u>	<u>159,740</u>
<b>FUND BALANCES</b>			
3590 Other Assigned Fund Balance	246	(97,819)	(97,573)
3000 Total Fund Balances	<u>246</u>	<u>(97,819)</u>	<u>(97,573)</u>
4000 Total Liabilities and Fund Balances	<u>\$ 10,246</u>	<u>\$ 51,921</u>	<u>\$ 62,167</u>

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

CITY OF PALMVIEW, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Data Control Codes	202 Asset Forfeiture	500 Debt Service	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
Taxes:			
5110 Property Taxes	\$ -	\$ 123,603	\$ 123,603
5300 Intergovernmental Revenue and Grants	2,037	-	2,037
5640 Contributions & Donations from Private Sources	1,000	-	1,000
5700 Other Revenue	<u>112,544</u>	<u>390</u>	<u>112,934</u>
5020 Total Revenues	<u>115,581</u>	<u>123,993</u>	<u>239,574</u>
<b>EXPENDITURES:</b>			
Public Safety:			
0210 Police	81,977	-	81,977
Debt Service:			
0710 Principal on Debt	-	125,371	125,371
0720 Interest on Debt	<u>2,000</u>	<u>-</u>	<u>2,000</u>
6030 Total Expenditures	<u>83,977</u>	<u>125,371</u>	<u>209,348</u>
1200 Net Change in Fund Balance	31,604	(1,378)	30,226
0100 Fund Balance - October 1 (Beginning)	-	26,216	26,216
1300 Prior Period Adjustment	<u>(31,358)</u>	<u>(122,657)</u>	<u>(154,015)</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 246</u>	<u>\$ (97,819)</u>	<u>\$ (97,573)</u>

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

COMPONENT UNIT FUND  
FINANCIAL STATEMENTS

PALMVIEW MUNICIPAL DEVELOPMENT DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

Data Control Codes	General Fund
<b>ASSETS</b>	
1010 Cash and Cash Equivalents	\$ 1,932,569
1300 Due from Other Funds	89,091
	<u>                    </u>
1000 Total Assets	<u>\$ 2,021,660</u>
<b>LIABILITIES</b>	
2010 Accounts Payable	\$ 54,225
2000 Total Liabilities	<u>54,225</u>
<b>FUND BALANCES</b>	
3600 Unassigned Fund Balance	1,967,435
3000 Total Fund Balances	<u>1,967,435</u>
4000 Total Liabilities and Fund Balances	<u>\$ 2,021,660</u>

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

PALMVIEW MUNICIPAL DEVELOPMENT DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2017

<b>Total Fund Balances - Governmental Funds</b>	\$	1,967,435
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the debt principal payments is to increase (decrease) net position.		(2,395,000)
<b>Net Position of Governmental Activities</b>	\$	(427,565)

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

PALMVIEW MUNICIPAL DEVELOPMENT DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT C-3

Data Control Codes	General Fund
<b>REVENUES:</b>	
5120 General Sales and Use Taxes	\$ 430,199
5020 Total Revenues	<u>430,199</u>
<b>EXPENDITURES:</b>	
0600 Municipal Development District	<u>918,326</u>
6030 Total Expenditures	<u>918,326</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(488,127)</u>
<b>OTHER FINANCING SOURCES (USES):</b>	
7911 Issuance of Bonds	<u>1,980,000</u>
7080 Total Other Financing Sources (Uses)	<u>1,980,000</u>
1200 Net Change in Fund Balances	1,491,873
0100 Fund Balance - October 1 (Beginning)	603,085
1300 Prior Period Adjustment	<u>(127,523)</u>
3000 Fund Balance - September 30 (Ending)	<u><u>\$ 1,967,435</u></u>

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

PALMVIEW MUNICIPAL DEVELOPMENT DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	1,491,873
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the debt principal payments is to increase (decrease) the change in net position.		45,000
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		(1,977,775)
<b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>(440,902)</u>

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

# **LUIS C OROZCO**

## **CERTIFIED PUBLIC ACCOUNTANT**

**808 Del Oro Lane  
Pharr, TX 78577  
lcocpa@lcocpa.com**

### *Independent Auditor's Report*

Honorable Mayor and  
City Council of  
City of Palmview, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Palmview, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Palmview, Texas's basic financial statements, and have issued our report thereon dated May 30, 2018.

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

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Palmview, Texas'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*.



# LUIS C OROZCO

CERTIFIED PUBLIC ACCOUNTANT

808 Del Oro Lane  
Pharr, TX 78577  
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## 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.



Pharr, Texas  
May 30, 2018

CITY OF PALMVIEW, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of the Auditor's Results:**

- a The type of report issued on the financial statements of *CITY OF PALMVIEW, TEXAS*:  
*Modified opinion.*
- b Significant deficiencies in internal control disclosed by the audit of the financial statements:  
*Yes*
- c Significant deficiencies identified as material weakness:  
*Yes*
- d Noncompliance material to the Financial Statements:  
*None*

**II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.**

**2017-01 Accounting for Capital Assets**

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

Condition: As of FYE September 30, 2017 the City did not have support for fixed asset balances

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

Recommendation: The City should 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. subsequent to year end the City has implemented the previously stated recommendations.

Auditee's Response: See Prior Year Finding 2016-1

**2017-002: Inconsistent Accounting Records and Practices**

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.

Condition: The City's book beginning balances did not reflect the ending balances from the prior year audit report.

Effect: Adjustments were required to properly state beginning balances, adjust accounts receivable, revenue, and grants.

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

Auditee's Response: See prior year finding 2016-4

**2017-003: Year-End Financial Reporting**

Criteria: The City is required to issue an Annual Financial Report in accordance with U.S. GAAP.

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

Effect: Numerous audit adjustments were required to properly report financial statements at year end in conformity with GASB 34 and GASB 68.

Recommendation: City should account for Group of Accounts in its accounting system. City Finance personnel should consider taking instructional courses on these areas.

Auditee's Response: See prior year finding 2016-4

CITY OF PALMVIEW, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

(Prepared by the City's Management)

**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.

**2016-01 Status:** The City has hired a qualified professional to meet with this recommendation. The finance Director has developed policies and procedures for the purchase of capital assets. An electronic spreadsheet system to track Capital Assets has been created, which will calculate the depreciation expense, the basis of the assets, and accumulated depreciation. The capital assets have all been entered. All capital assets purchases are temporarily charged to a "New Equipment Purchases" expense account in the QuickBooks Accounting program and then transferred to the Capital Assets spreadsheet. An appropriate accounting program has been purchased and awaiting installation. The program will also be used to keep track of the capital assets.

**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.

**2016-02 Status:** The City has hired a qualified professional to address this recommendation. The Finance Director has developed a "Schedule of Payments" to track all regularly scheduled payments. The Finance Director has also developed amortization tables to track each note. The payments have also been entered into QuickBooks accounting program as "Reminders" to keep track of due dates.

### **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.

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.

**2016-03 Status:** *The City has hired a qualified professional to address this recommendation. The Finance Director has developed and implemented a full regimen of policies and procedures and Internal Control Policies to address this recommendation. All transactions are entered using Modified Accrual Basis principles to reflect a timely record of transactions and timely and relevant presentation of information in the Financial Statements.*

### **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.

**2016-04 Status:** *The City has hired a qualified professional to address this recommendation. A Finance Director has been hired and all the recommendations in this Summary have been addressed.*