

CITY OF PALMER, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2010

CITY OF PALMER, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2010

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Yeldell, Wilson & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS (A PROFESSIONAL CORPORATION)
Members of American Institute of Certified Public Accountants / Members of Private Companies Practice Section

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Palmer, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palmer, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Palmer, Texas' management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palmer, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 38 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.

Honorable Mayor and City Council

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palmer, Texas' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeldell, Wilson, P.C.

Yeldell, Wilson & Co., P.C.
Certified Public Accountants

May 13, 2011

CITY OF PALMER, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Palmer, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,971,324 (net assets). Of this amount, \$1,166,558 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$791,577.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,198,662. Over 73% of this total amount, \$877,779 is unreserved and available for use within the City's designation and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$643,963 or 47% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, municipal court and economic development. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself, but also a legally separate economic development corporation which function for all practical purposes as part of the City, and therefore has been included as a blended component unit as a integral part of the primary government.

The government-wide financial statements can be found on pages 11-12 of this report.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains five individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General fund, Palmer Economic Development Corporation and Debt Service fund, all of which are considered to be major funds. Data from the other two funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and economic development corporation. A budgetary comparison statement has been provided for the general fund and economic development corporation to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-15 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund since it is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-36 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds. Combining and individual statements and schedules can be found on pages 39-46 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, assets exceeded liabilities by \$3,971,324 as of September 30, 2010.

A large portion of the City's net assets (63%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, infrastructure and water rights), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF PALMER'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,562,249	\$ 1,400,609	\$ 655,244	\$ 518,122	\$ 2,217,493	\$ 1,918,731
Capital assets	493,654	507,862	4,274,142	3,864,363	4,767,796	4,372,225
Total assets	2,055,903	1,908,471	4,929,386	4,382,485	6,985,289	6,290,956
Long term liabilities	1,159,059	1,185,362	1,376,274	1,536,292	2,535,333	2,721,654
Other liabilities	265,159	235,749	213,473	153,806	478,632	389,555
Total liabilities	1,424,218	1,421,111	1,589,747	1,690,098	3,013,965	3,111,209
Net assets:						
Invested in capital assets, net of related debt	(638,643)	(652,264)	3,132,464	2,604,363	2,493,821	1,952,099
Restricted	310,945	301,414	-	-	310,945	301,414
Unrestricted	959,383	838,210	207,175	88,024	1,166,558	926,234
Total net assets	\$ 631,685	\$ 487,360	\$ 3,339,639	\$ 2,692,387	\$ 3,971,324	\$ 3,179,747

An additional portion of the City's net assets (8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$1,166,558 may be used to meet the government's ongoing obligation to citizens and creditors.

As noted on page 9, the City's net assets invested in capital assets increased as a result of machinery and equipment and water and sewer system improvements, while long-term debt decreased due to scheduled debt payments being made.

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

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2010. Governmental activities increased the City's net assets by \$144,325, accounting for 18% of the growth in net assets. Business-type activities increased the City's net assets by \$647,252, accounting for 82% of the growth in net assets.

CITY OF PALMER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,172,248	\$ 1,032,751	\$ 805,585	\$ 790,081	\$ 1,977,833	\$ 1,822,832
Operating grants and contributions	1,643	1,220	-	-	1,643	1,220
Capital grants and contributions	30,994	-	377,105	6,000	408,099	6,000
General revenues:						
Property tax	405,540	397,747	-	-	405,540	397,747
Sales tax	187,288	166,470	-	-	187,288	166,470
Franchise tax	63,720	69,761	-	-	63,720	69,761
Hotel-motel tax	2,574	2,987	-	-	2,574	2,987
Royalty fees	21,300	18,244	-	-	21,300	18,244
Investment earnings	14,813	13,869	2,393	3,262	17,206	17,131
Gain/(Loss) on sale of capital assets	(1,122)	25,676	-	-	(1,122)	25,676
Miscellaneous	26,175	21,121	-	-	26,175	21,121
Total revenues	1,925,173	1,749,846	1,185,083	799,343	3,110,256	2,549,189
Expenses:						
General government	273,280	294,420	-	-	273,280	294,420
Public safety	676,171	609,095	-	-	676,171	609,095
Public works	303,249	267,304	-	-	303,249	267,304
Municipal court	142,663	129,441	-	-	142,663	129,441
Economic development	1,256	2,079	-	-	1,256	2,079
Interest on long-term debt	19,820	68,748	-	-	19,820	68,748
Water and sewer	-	-	902,240	967,674	902,240	967,674
Total expenses	1,416,439	1,371,087	902,240	967,674	2,318,679	2,338,761
Increase in net assets before transfers	508,734	378,759	282,843	(168,331)	791,577	210,428
Transfers	(364,409)	(249,275)	364,409	249,275	-	-
Increase in net asset	144,325	129,484	647,252	80,944	791,577	210,428
Net assets - beginning	487,360	357,876	2,692,387	2,611,443	3,179,747	2,969,319
Net assets - ending	\$ 631,685	\$ 487,360	\$ 3,339,639	\$ 2,692,387	\$ 3,971,324	\$ 3,179,747

- For the most part, decreases in expenses resulted from management imposed budgetary controls initiated in response to a declining national, state and local economy.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,198,662. Approximately 73% of this total amount (\$877,779) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for public safety (\$188,820), 2) to pay for debt service (\$122,125) and 3) for a variety of other restricted purposes (\$9,938).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$643,963 while total fund balance reached \$842,721. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 47% of total general fund expenditures, while total fund balance represents 62% of that same amount.

The fund balance of the City's general fund increased \$92,508 during the current fiscal year.

The Palmer Economic Development Corporation has a total fund balance of \$190,362. The net decrease in fund balance during the current year was \$25.

The debt service fund has a total fund balance of \$122,125. The net decrease in fund balance during the current year in the debt service fund was \$20,143.

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

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$207,175. Net assets increased in 2010 by \$647,252. Other factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights. The main difference between the original budget and final amended budget are as follows:

- Increase in fines and forfeitures of \$44,600
- Increase in general government expenditures of \$40,200
- Increase in public safety expenditures of \$149,300
- Increase in public works expenditures of \$24,600
- Increase in municipal court expenditures of \$17,500
- Decrease in transfers out of \$198,300.

General fund actual revenues of \$1,828,003 exceeded budgeted revenues of \$1,708,500 by \$119,503.

Budgeted general fund expenditures of \$1,683,500 exceeded actual expenditures of \$1,349,434. This \$334,066 positive variance in expenditures was achieved through a series of expenditure restrictions imposed during the year.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010 amounts to \$4,767,796 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure and water rights.

Major capital asset events during the current fiscal year included the following:

- Machinery and equipment additions of approximately \$119,000.
- Water and sewer system additions of approximately \$598,000.

Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 17,314	\$ -	\$ 22,368	\$ 22,368	\$ 39,682	\$ 22,368
Construction in progress	-	6,860	469,078	36,520	469,078	43,380
Buildings	145,391	153,804	23,661	25,671	169,052	179,475
Improvements	38,588	30,448	3,662,648	3,705,339	3,701,236	3,735,787
Machinery and equipment	268,058	288,471	72,620	49,878	340,678	338,349
Infrastructure	24,303	28,279	-	-	24,303	28,279
Water rights	-	-	23,767	24,587	23,767	24,587
Total	<u>\$ 493,654</u>	<u>\$ 507,862</u>	<u>\$ 4,274,142</u>	<u>\$ 3,864,363</u>	<u>\$ 4,767,796</u>	<u>\$ 4,372,225</u>

Additional information on the City of Palmer's capital assets can be found in note 3 on pages 27-28 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total debt of \$2,305,000. Of this amount, \$2,305,000 comprises bonded debt backed by the full faith and credit of the government.

Outstanding Debt at Year End Bonds and Interlocal Agreement Payable

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Certificates of obligation	\$ -	\$ 1,165,000	\$ 935,000	\$ 1,260,000	\$ 935,000	\$ 2,425,000
General obligation bonds	1,159,284	-	210,716	-	1,370,000	-
Total	<u>\$ 1,159,284</u>	<u>\$ 1,165,000</u>	<u>\$ 1,145,716</u>	<u>\$ 1,260,000</u>	<u>\$ 2,305,000</u>	<u>\$ 2,425,000</u>

Additional information on the City of Palmer's long term-debt can be found in note 3 on pages 29-32 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2010-11 Budget, General Fund revenues did not change from the 2009-10 budget year with fines and forfeitures making up about 49% of general fund budgeted revenues.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, P.O. Box 489, Palmer, Texas 75154.

CITY OF PALMER, TEXAS
STATEMENT OF NET ASSETS
September 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,215,538	\$ 368,743	\$ 1,584,281
Investments	194,775	40,445	235,220
Receivables (net of allowance for uncollectibles)	74,341	90,140	164,481
Due from other governments	-	93,278	93,278
Internal balances	(7,291)	7,291	-
Inventories	4,030	26,388	30,418
Prepaid items	5,908	2,008	7,916
Deferred charges	74,948	26,951	101,899
Capital assets:			
Non-depreciable	17,314	491,446	508,760
Depreciable (net of accumulated depreciation)	476,340	3,782,696	4,259,036
Total assets	2,055,903	4,929,386	6,985,289
LIABILITIES			
Accounts payable and other current liabilities	237,252	122,117	359,369
Accrued payroll payable	22,406	8,657	31,063
Accrued interest payable	5,385	10,619	16,004
Due to other governments	116	-	116
Customer deposits payable	-	72,080	72,080
Noncurrent liabilities:			
Due within one year	141,851	116,209	258,060
Due in more than one year	1,017,208	1,260,065	2,277,273
Total liabilities	1,424,218	1,589,747	3,013,965
NET ASSETS			
Invested in capital assets, net of related debt	(638,643)	3,132,464	2,493,821
Restricted for:			
Public safety	188,820	-	188,820
Debt service	122,125	-	122,125
Unrestricted	959,383	207,175	1,166,558
Total net assets	\$ 631,685	\$ 3,339,639	\$ 3,971,324

CITY OF PALMER, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2010

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total
Governmental activities:							
General government	\$ 273,280	\$ 12,965	\$ -	\$ -	\$ (260,315)	\$ -	\$ (260,315)
Public safety	676,171	1,069,874	1,643	13,680	409,026	-	409,026
Public works	303,249	89,409	-	17,314	(196,526)	-	(196,526)
Municipal court	142,663	-	-	-	(142,663)	-	(142,663)
Economic development	1,256	-	-	-	(1,256)	-	(1,256)
Interest on long-term debt	19,820	-	-	-	(19,820)	-	(19,820)
Total governmental activities	<u>1,416,439</u>	<u>1,172,248</u>	<u>1,643</u>	<u>30,994</u>	<u>(211,554)</u>	<u>-</u>	<u>(211,554)</u>
Business-type activities:							
↳ Water and sewer	902,240	805,585	-	377,105	-	280,450	280,450
Total business-type activities	<u>902,240</u>	<u>805,585</u>	<u>-</u>	<u>377,105</u>	<u>-</u>	<u>280,450</u>	<u>280,450</u>
Total primary government	<u>\$ 2,318,679</u>	<u>\$ 1,977,833</u>	<u>\$ 1,643</u>	<u>\$ 408,099</u>	<u>(211,554)</u>	<u>280,450</u>	<u>68,896</u>
General revenues:							
Property tax					405,540	-	405,540
Sales tax					187,288	-	187,288
Franchise tax					63,720	-	63,720
Hotel-motel tax					2,574	-	2,574
Royalty fees					21,300	-	21,300
Investment earnings					14,813	2,393	17,206
Gain/(loss) on sale of capital asset					(1,122)	-	(1,122)
Miscellaneous					26,175	-	26,175
Transfers					(364,409)	364,409	-
Total general revenues					<u>355,879</u>	<u>366,802</u>	<u>722,681</u>
Change in net assets					<u>144,325</u>	<u>647,252</u>	<u>791,577</u>
Net assets - beginning					<u>487,360</u>	<u>2,692,387</u>	<u>3,179,747</u>
Net assets - ending					<u>\$ 631,685</u>	<u>\$ 3,339,639</u>	<u>\$ 3,971,324</u>

See accompanying notes to financial statements.

CITY OF PALMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010

	General	Palmer Economic Development Corporation	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 979,971	\$ 178,290	\$ 34,173	\$ 23,104	\$ 1,215,538
Investments	90,479	-	84,554	19,742	194,775
Receivables (net of allowance for uncollectibles)	73,733	-	-	608	74,341
Prepaid items	5,908	-	-	-	5,908
Due from other funds	-	12,072	3,398	-	15,470
Inventory	4,030	-	-	-	4,030
Total assets	<u>\$1,154,121</u>	<u>\$ 190,362</u>	<u>\$122,125</u>	<u>\$ 43,454</u>	<u>\$ 1,510,062</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 237,252	\$ -	\$ -	\$ -	\$ 237,252
Accrued payroll payable	22,406	-	-	-	22,406
Due to other funds	22,761	-	-	-	22,761
Due to other governments	116	-	-	-	116
Deferred revenue	28,865	-	-	-	28,865
Total liabilities	<u>311,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,400</u>
Fund balances:					
Reserved for:					
Court security	151,924	-	-	-	151,924
Court technology	16,187	-	-	-	16,187
Seizures	20,709	-	-	-	20,709
Prepaid items	5,908	-	-	-	5,908
Inventory	4,030	-	-	-	4,030
Debt service	-	-	122,125	-	122,125
Unreserved:					
Undesignated	643,963	190,362	-	-	834,325
Unreserved reported in nonmajor Special revenue funds	-	-	-	43,454	43,454
Total fund balances	<u>842,721</u>	<u>190,362</u>	<u>122,125</u>	<u>43,454</u>	<u>1,198,662</u>
Total liabilities and fund balances	<u>\$1,154,121</u>	<u>\$ 190,362</u>	<u>\$122,125</u>	<u>\$ 43,454</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.					493,654
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.					28,865
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.					(5,385)
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.					
Due within one year				(141,851)	
Due in more than one year				(1,017,208)	
Deferred charges				74,948	(1,084,111)
Net assets of governmental activities					<u>\$ 631,685</u>

See accompanying notes to financial statements.

CITY OF PALMER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2010

	General	Palmer Economic Development Corporation	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 396,905	\$ -	\$ -	\$ -	\$ 396,905
Sales	140,900	46,388	-	-	187,288
Franchise	63,720	-	-	-	63,720
Hotel-motel tax	-	-	-	2,574	2,574
Licenses and permits	12,965	-	-	-	12,965
Fines and forfeitures	1,069,874	-	-	-	1,069,874
Charges for current services	89,409	-	-	-	89,409
Revenues from use of money and property	7,078	1,447	6,152	136	14,813
Royalty fees - landfill	21,300	-	-	-	21,300
Other	24,715	1,460	-	-	26,175
Intergovernmental	14,140	-	-	1,183	15,323
Total revenues	<u>1,841,006</u>	<u>49,295</u>	<u>6,152</u>	<u>3,893</u>	<u>1,900,346</u>
EXPENDITURES					
Current:					
General government	261,982	-	-	-	261,982
Public safety	663,440	-	-	-	663,440
Public works	290,126	-	-	-	290,126
Municipal court	152,890	-	-	-	152,890
Economic development	-	30,556	-	-	30,556
Debt service:					
Principal retirement	-	-	130,104	-	130,104
Interest and fiscal charges	-	-	18,221	-	18,221
Bond issuance costs	-	-	45,963	-	45,963
Total expenditures	<u>1,368,438</u>	<u>30,556</u>	<u>194,288</u>	<u>-</u>	<u>1,593,282</u>
Excess of revenues over expenditures	<u>472,568</u>	<u>18,739</u>	<u>(188,136)</u>	<u>3,893</u>	<u>307,064</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	245,060	-	245,060
Transfers out	(385,060)	(18,764)	(176,345)	-	(580,169)
Debt proceeds	-	-	1,256,222	-	1,256,222
Payment to refunded bond escrow agent	-	-	(1,165,000)	-	(1,165,000)
Premium on refunding bond	-	-	8,056	-	8,056
Sale of capital assets	5,000	-	-	-	5,000
Total other financing sources (uses)	<u>(380,060)</u>	<u>(18,764)</u>	<u>167,993</u>	<u>-</u>	<u>(230,831)</u>
Net change in fund balances	92,508	(25)	(20,143)	3,893	76,233
Fund balances at beginning of year	<u>750,213</u>	<u>190,387</u>	<u>142,268</u>	<u>39,561</u>	<u>1,122,429</u>
Fund balances at end of year	<u>\$ 842,721</u>	<u>\$ 190,362</u>	<u>\$ 122,125</u>	<u>\$ 43,454</u>	<u>\$ 1,198,662</u>

See accompanying notes to financial statements.

CITY OF PALMER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2010

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balance-total governmental funds (page 14) \$ 76,233

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period. 94,039

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. (6,122)

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (102,125)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bonds issued	(1,289,389)	
Bond principal retirement	1,295,105	
Bond issuance costs	45,963	
Bond premium	(8,056)	
Bond refunding gains	33,167	
Amortization of deferred charges	(8,328)	
Amortization of bond premiums/discounts	319	
Amortization of bond refunding gains	(3,317)	65,464

Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of changes in net assets compensated absences are expensed as they are accrued. Change in the compensated absences liability. (1,526)

Some property tax will not be collected for several months after the city's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount deferred on Fund statements. 8,635

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest. 9,727

Change in net assets of governmental activities (page 12) \$ 144,325

CITY OF PALMER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2010

	Business-type Activities - Enterprise (Water and Sewer) Fund
	Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 368,743
Investments	40,445
Receivables (net of allowance for uncollectibles)	90,140
Due from other governments	93,278
Due from other funds	7,291
Inventory	26,388
Prepaid items	2,008
Total current assets	628,293
Noncurrent assets:	
Deferred charges	26,951
Capital assets (net, where applicable of accumulated depreciation)	4,274,142
Total noncurrent assets	4,301,093
Total assets	4,929,386
LIABILITIES	
Current liabilities:	
Accounts payable	122,117
Accrued payroll payable	8,657
Accrued interest payable	10,619
Compensated absences	4,007
Customer deposits payable	72,080
Bonds payable	69,911
Construction surcharge payable	42,291
Total current liabilities	329,682
Noncurrent liabilities:	
Bonds payable	1,071,767
Construction surcharge payable	188,298
Total noncurrent liabilities	1,260,065
Total liabilities	1,589,747
NET ASSETS	
Invested in capital assets, net of related debt	3,132,464
Unrestricted	207,175
Total net assets	\$ 3,339,639

See accompanying notes to financial statements.

CITY OF PALMER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended September 30, 2010

	Business-type Activities - Enterprise (Water and Sewer) Fund
	Fund
Operating revenues:	
Water sales and penalties	\$ 560,145
Sewer service charge	231,280
Water and sewer taps	1,100
Reconnect fees	6,051
Miscellaneous	7,009
Total operating revenues	805,585
Operating expenses:	
Water and sewer operations	617,333
Depreciation and amortization	234,694
Total operating expenses	852,027
Operating income (loss)	(46,442)
Nonoperating revenue (expenses):	
Investment earnings	2,393
Interest and fiscal charges	(49,034)
Bond issuance costs	(1,179)
Total nonoperating revenue (expenses)	(47,820)
Income before contributions and transfers	(94,262)
Capital contributions	406,405
Transfer in	335,109
Change in net assets	647,252
Total net assets - beginning	2,692,387
Total net assets - ending	\$ 3,339,639

CITY OF PALMER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2010

	Business-type Activities - Enterprise (Water and Sewer) Fund
Cash flows from operating activities:	
Receipts from customers and users	\$ 808,132
Payments to suppliers	(495,291)
Payments to employees	(158,366)
Net cash provided (used) by operating activities	154,475
Cash flows from noncapital financing activities:	
Advances to other funds	(7,291)
Repayment of advances from other funds	(6,226)
Transfers from other funds	335,109
Net cash provided (used) by noncapital financing activities	321,592
Cash flows from capital and related financing activities:	
Capital contribution	289,827
Acquisition and construction of capital assets	(566,768)
Proceeds from sale of bonds	211,412
Bond issuance costs	(8,216)
Principal paid on bond maturities	(329,896)
Interest and fiscal charges paid on revenue bonds	(49,581)
Net cash provided (used) by capital and related financing activities	(453,222)
Cash flows from investing activities:	
Interest on investments	2,393
Net cash provided (used) by investing activities	2,393
Net increase (decrease) in cash and cash equivalents	25,238
Cash and cash equivalents at beginning of year	383,950
Cash and cash equivalents at end of year	\$ 409,188
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (46,442)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	234,694
(Increase) decrease in accounts receivable	(693)
(Increase) decrease in inventory	(1,496)
(Increase) decrease in prepaid items	(1,864)
Increase (decrease) in accounts payable and accrued expenses	(32,964)
Net increase in customer deposits	3,240
Total adjustments	200,917
Net cash provided by operating activities	\$ 154,475
Noncash investing, capital and financing activities:	
Capital assets purchased on account and contributed	\$ 78,974
Contributions of capital assets from governmental fund	\$ 29,300

See accompanying notes to financial statements.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Palmer, Texas (the "City") was incorporated in 1921. The accompanying financial statements present the activity of the City.

The accompanying financial statements include the City and its blended component unit, the Palmer Economic Development Corporation, collectively referred to as "the financial reporting entity." In accordance with GASB Statement No. 14, the component unit has been included in the City's reporting entity because of the significance of its operations or financial relationship with the City.

Blended Component Units. Following are descriptions of legally separate component units for which the City is financially accountable that are blended with the City.

The Palmer Economic Development Corporation (the "Corporation") is responsible for disbursing the one-fourth percent sales tax to be used for economic and industrial development within the City. The members of the Corporation's board are appointed by the City and are comprised of seven directors of which three shall be persons who are not employees, officers of the City or members of the City Council.

Separate financial statements for the Palmer Economic Development Corporation are not issued.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information 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.

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. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

Property taxes, when levied for, intergovernmental revenues, when eligibility requirements are met, trash collection fees and interest are all considered to be susceptible to accrual (measurable) and so have been recognized as revenues of the current fiscal period, if available. Available has been defined as received within sixty days of the fiscal year end. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

The Palmer Economic Development Corporation is responsible for disbursing the one-fourth percent sales tax to be used for economic and industrial development within the City.

The debt service fund accounts for the resources accumulated and payments made for principal and interest and related costs on long-term general obligation debt of governmental funds.

The City reports the following major proprietary fund:

The water and sewer fund accounts for the activities of the sewage collection system and the water distribution system.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in the government-wide governmental and business type activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to apply private-sector guidance issued after November 30, 1989.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services and the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, liabilities, and net assets or equity

Deposits and Investments -

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

Investments for the City are reported at fair value.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Receivables and payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of sixty days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to .2 percent of outstanding property taxes at year end.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Central Tax Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

Inventory and prepaid items -

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Capital assets -

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, equipment and infrastructure are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Improvements	5-40
Machinery and equipment	3-10
Infrastructure	10-15
Water rights	40

Compensated absences –

It is the government's policy to permit employees to accumulate earned but unused paid time off benefits. All paid time off is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Paid time off shall be taken annually.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Long-term obligations -

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

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

Fund Equity -

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets for the general and water and sewer funds are adopted on the budgetary basis of accounting. The annual budgets are adopted on a basis consistent with generally accepted accounting principles for the economic development corporation and debt service funds. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the fund level.

B. Excess of expenditures over appropriations in individual funds

The Debt Service fund expenditures exceeded budget in the amount of \$58,288. This excess was funded by beginning fund balance.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City’s deposits were fully insured or collateralized as required by State statutes at September 30, 2010. At year end, the bank balance of the City’s deposits was \$1,465,815. Of the bank balance, \$284,889 was covered by federal depository insurance and the remaining balance, \$1,180,926, was covered by collateral pledged in the City’s name. The collateral was held in the City’s name by the safekeeping department of the pledging bank’s agent and had a fair value of approximately \$1,644,000.

At year end the bank balance of the Corporation’s deposits was \$178,290. Of the bank balance, \$178,290 was covered by federal depository insurance.

Investments – Public funds of the City may be invested in U.S. Treasuries, U.S. Government agencies/instrumentalities (excluding mortgage backed securities), certificates of deposit, commercial paper, and local government investment pools.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Public Funds Investment Act, and the actual rating as of year end.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
TexSTAR	<u>\$ 235,220</u>	N/A	AAAm

The local government investment pool is managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act. Although the pool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the City’s position in the pool is the same as the value of pool’s shares.

TexSTAR is co-administered by First Southwest Asset Management, Inc. and JPMorgan Chase, who provide investment services, participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JP Morgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor Funds	Water and Sewer	Total
Receivables:				
Taxes	\$ 79,988	\$ 608	\$ -	\$ 80,596
Accounts	1,140	-	121,675	122,815
Gross receivables	81,128	608	121,675	203,411
Less: allowance for uncollectibles	(7,395)	-	(31,535)	(38,930)
Net total receivables	<u>\$ 73,733</u>	<u>\$ 608</u>	<u>\$ 90,140</u>	<u>\$ 164,481</u>

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. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Delinquent property taxes receivable (general fund)	<u>Unavailable</u> <u>\$ 28,865</u>
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CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 17,314	\$ -	\$ 17,314
Construction in progress	6,860	3,550	(10,410)	-
Total capital assets not being depreciated	<u>6,860</u>	<u>20,864</u>	<u>(10,410)</u>	<u>17,314</u>
Capital assets being depreciated:				
Buildings	222,587	-	-	222,587
Improvements	43,067	10,945	-	54,012
Machinery and equipment	691,981	72,640	(20,408)	744,213
Infrastructure	68,397	-	-	68,397
Totals capital assets being depreciated	<u>1,026,032</u>	<u>83,585</u>	<u>(20,408)</u>	<u>1,089,209</u>
Less accumulated depreciation for:				
Buildings	(68,783)	(8,413)	-	(77,196)
Improvements	(12,619)	(2,805)	-	(15,424)
Machinery and equipment	(403,510)	(86,931)	14,286	(476,155)
Infrastructure	(40,118)	(3,976)	-	(44,094)
Total accumulated depreciation	<u>(525,030)</u>	<u>(102,125)</u>	<u>14,286</u>	<u>(612,869)</u>
Total capital assets, being depreciated, net	<u>501,002</u>	<u>(18,540)</u>	<u>(6,122)</u>	<u>476,340</u>
Governmental activities capital assets, net	<u>\$ 507,862</u>	<u>\$ 2,324</u>	<u>\$ (16,532)</u>	<u>\$ 493,654</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 22,368	\$ -	\$ -	\$ 22,368
Construction in progress	36,520	472,484	(39,926)	469,078
Total capital assets not being depreciated	<u>58,888</u>	<u>472,484</u>	<u>(39,926)</u>	<u>491,446</u>
Capital assets being depreciated:				
Buildings	60,294	-	-	60,294
Improvements	5,612,290	165,940	-	5,778,230
Machinery and equipment	206,024	45,975	-	251,999
Water rights	32,783	-	-	32,783
Total capital assets being depreciated	<u>5,911,391</u>	<u>211,915</u>	<u>-</u>	<u>6,123,306</u>
Less accumulated depreciation for:				
Buildings	(34,623)	(2,010)	-	(36,633)
Improvements	(1,906,951)	(208,631)	-	(2,115,582)
Machinery and equipment	(156,146)	(23,233)	-	(179,379)
Water rights	(8,196)	(820)	-	(9,016)
Total accumulated depreciation	<u>(2,105,916)</u>	<u>(234,694)</u>	<u>-</u>	<u>(2,340,610)</u>
Total capital assets being depreciated, net	<u>3,805,475</u>	<u>(22,779)</u>	<u>-</u>	<u>3,782,696</u>
Business-type capital assets, net	<u>\$ 3,864,363</u>	<u>\$ 449,705</u>	<u>\$ (39,926)</u>	<u>\$ 4,274,142</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets (continued)

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

Governmental activities:	
General government	\$ 10,670
Public safety	58,299
Public works	17,768
Municipal court	15,388
Total depreciation expense - governmental activities	<u>\$ 102,125</u>
Business-type activities:	
Water and sewer	<u>\$ 234,694</u>

The construction in progress consists of water and sewer system improvements.

Construction Commitments -

The City has a construction project outstanding as of September 30, 2010. This project is evidenced by contractual commitments with contractors and include:

<u>Project</u>	<u>Spent-to-date</u>	<u>Commitment Remaining</u>
Water and sewer system improvements	<u>\$ 386,809</u>	<u>\$ 26,855</u>

The water and sewer system improvements project is a commitment of the City's enterprise fund. This project is being funded by grant revenue.

D. Interfund receivables, payables and transfers

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and sewer	General	\$ 7,291
Palmer Economic Development Corporation	General	12,072
Debt Service	General	3,398
		<u>\$ 22,761</u>

These balances resulted from the lag time between the dates that transactions are recorded in the accounting system and payments between funds are made.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

D. Interfund receivables, payables and transfers (continued)

Interfund transfers:

Transfer out:	Transfer In:		
	Debt Service	Water and Sewer	Total
General	\$ 245,060	\$ 140,000	\$ 385,060
Palmer Economic Development Corporation	-	18,764	18,764
Debt Service	-	176,345	176,345
	\$ 245,060	\$ 335,109	\$ 580,169

Transfers are primarily used to move funds from:

- The General fund to the Debt Service fund for payment of bonds.
- The Palmer Economic Development Corporation to the Water and Sewer fund for payment of bonds
- The Debt Service fund to the Water and Sewer fund for payment of bonds.

E. Long-term debt

Certificates of Obligation -

The City issues certificates of obligation to provide fund for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for business-type activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government and are further secured by and payable from a pledge of the surplus net revenues derived from the operation of the City's water and sewer system.

Certificates of obligation currently outstanding and reported as liabilities of the City's business-type activities are:

Series	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
2002	\$ 1,405,000	7/1/2022	2.75-4.00	\$ 935,000

General Obligation Bonds -

The City issues general obligation bonds to provide funds for the refunding of prior bond issues. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

E. Long-term debt (continued)

General obligation bonds currently outstanding and reported as liabilities of the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2009 Refunding	\$ 1,289,389	2/1/2019	2.0-5.125	<u>\$ 1,159,284</u>

General obligation bonds currently outstanding and reported as liabilities of the City's business-type activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2009 Refunding	\$ 215,611	2/1/2035	2.0-5.125	<u>\$ 210,716</u>

Construction Surcharge Payable -

Under the water supply contract the City entered into with Rockett Special Utility District (the "District") described in Note 5, the District, in order to supply treated water to the City, constructed a water pipeline from the District's plant to the City's water treatment plant. A portion of the construction cost owed by the City is to be paid through a construction surcharge. The construction surcharge will be paid on a rate per 1,000 gallons of water purchased on a monthly basis not to exceed 120 months. The construction surcharge paid during the year ended September 30, 2010 totaled \$42,340. The construction surcharge payable at September 30, 2010 was \$230,588.

Annual debt service requirements to maturity are as follows -

Year Ending September 30	<u>Governmental Activities</u>	
	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 115,089	\$ 33,166
2012	115,159	31,227
2013	119,134	28,692
2014	124,209	26,053
2015	129,125	22,295
2016-2019	556,568	44,067
	<u>\$1,159,284</u>	<u>\$ 185,500</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

E. Long-term debt (continued)

Year Ending September 30	Business-Type Activities				
	Certificates of Obligation		General Obligation Bonds		Construction
	Principal	Interest	Principal	Interest	Surcharge
2011	\$ 65,000	\$ 33,860	\$ 4,911	\$ 13,640	\$ 42,291
2012	65,000	31,878	4,841	13,180	42,291
2013	70,000	29,830	5,866	13,014	42,291
2014	70,000	27,555	5,791	12,529	42,291
2015	75,000	25,210	5,875	12,387	42,291
2016-2020	415,000	83,598	33,432	53,852	19,133
2021-2025	175,000	10,355	40,000	34,594	-
2026-2030	-	-	50,000	23,063	-
2031-2035	-	-	60,000	9,994	-
	<u>\$ 935,000</u>	<u>\$ 242,286</u>	<u>\$ 210,716</u>	<u>\$ 186,253</u>	<u>\$ 230,588</u>

Changes in long-term liabilities –

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Certificates of obligation	\$ 1,165,000	\$ -	\$ (1,165,000)	\$ -	\$ -
General obligation bonds	-	1,289,389	(130,105)	1,159,284	115,089
Less deferred amounts:					
For issuance discount	(4,874)	-	487	(4,387)	-
For issuance premium	-	8,056	(806)	7,250	-
On refunding	-	(33,167)	3,317	(29,850)	-
Total bonds payable	1,160,126	1,264,278	(1,292,107)	1,132,297	115,089
Compensated absences	25,236	45,268	(43,742)	26,762	26,762
Governmental activity					
Long-term liabilities	<u>\$ 1,185,362</u>	<u>\$ 1,309,546</u>	<u>\$ (1,335,849)</u>	<u>\$ 1,159,059</u>	<u>\$ 141,851</u>
Business-type activities:					
Certificates of obligation	\$ 1,260,000	\$ -	\$ (325,000)	\$ 935,000	\$ 65,000
General obligation bonds	-	215,611	(4,895)	210,716	4,911
Less deferred amounts:					
For issuance premium	-	1,347	(52)	1,295	-
On refunding	-	(5,546)	213	(5,333)	-
Total bonds payable	1,260,000	211,412	(329,734)	1,141,678	69,911
Construction surcharge payable	272,928	-	(42,340)	230,588	42,291
Compensated absences	3,364	6,432	(5,789)	4,007	4,007
Business-type activity					
Long-term liabilities	<u>\$ 1,536,292</u>	<u>\$ 217,844</u>	<u>\$ (377,863)</u>	<u>\$ 1,376,273</u>	<u>\$ 116,209</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

E. Long-term debt (continued)

General obligation refunding bonds issued for governmental activity purposes are liquidated by the debt service fund. Certificates of obligations and general obligation refunding bonds issued for business-type activities are repaid from those activities.

Governmental compensated absences will be liquidated by the general fund. Business-type compensated absences and construction surcharge payable will be liquidated by those activities.

NOTE 4 – OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

B. Commitments

The City has entered into a contract with Trinity River Authority (TRA) of Texas whereby the City acquired the right to buy raw water from Richland-Chambers and Cedar Creek Reservoirs for a period of forty years. The City will pay an administration fee of \$72 per month increasing by \$1.50 per month per year over the term of the agreement. The City does not have any control over budgeting or financing. Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

The City has entered into a contract with Rockett Special Utility District (the “District”) whereby the District agrees to sell treated water to the City. The contract requires the City to take or pay for 200,000 gallons of water per day. The service to be performed under this contract by the District consists of the readiness of Rockett to deliver to Palmer treated water in accordance with the provisions of the contract. A current schedule of estimated future contractual payments due the District is shown below:

From	To	Monthly Payment	Annual Payment	Total of Payments
10/01/10	05/31/26	\$ 24,212	\$ 290,544	\$ 4,551,856

Actual payments for the year ended September 30, 2010 were \$248,200.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 – OTHER INFORMATION (continued)

C. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

D. Retirement plan

Plan Description -

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

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

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

	Plan Year 2009	Plan Year 2010
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 – OTHER INFORMATION (continued)

D. Retirement plan (continued)

Contributions -

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 28-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate, which for 2010 and 2009 was 5.60% and 4.97%, respectively. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 43,174
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	43,174
Contributions Made	(43,174)
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	\$ -

Six-year trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2005	\$ 26,804	\$ 26,804	100%	\$ -
2006	26,039	26,039	100%	-
2007	30,280	30,280	100%	-
2008	28,013	28,013	100%	-
2009	34,426	34,426	100%	-
2010	43,174	43,174	100%	-

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 – OTHER INFORMATION (continued)

D. Retirement plan (continued)

The required contribution rates for the year ended September 30, 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

The funded progress, presenting multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2004	\$ 244,719	\$ 263,040	93.0%	\$ 18,321	\$ 525,264	3.5%
12/31/2005	306,165	321,385	95.3%	15,220	504,509	3.0%
12/31/2006	350,965	337,256	104.1%	(13,709)	609,076	-2.3%
12/31/2007	420,932	432,120	97.4%	11,188	686,460	1.6%
12/31/2008	459,198	476,402	96.4%	17,204	707,314	2.4%
12/31/2009	540,317	572,756	94.3%	32,439	734,803	4.4%

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 – OTHER INFORMATION (continued)

E. Subsequent event

Subsequent to year end, the City entered into a construction contract for improvements to the wastewater treatment plant totaling approximately \$129,000.

REQUIRED SUPPLEMENTARY INFORMATION

Major Governmental Funds

This supplementary schedule is included to supplement the basic financial statements as required by Governmental Accounting Standards Board.

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (BUDGET BASIS) AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2010

	General Fund					Palmer Economic Development Corporation					
	Budget Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget - Over (Under) Budget	Original and Final Budget Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget - Over (Under) Budget
	Original	Final									
REVENUES											
Taxes:											
Property	\$ 398,400	\$ 387,000	\$ 396,905	\$ 1,048	\$ 397,953	\$ 10,953	\$ -	\$ -	\$ -	\$ -	\$ -
Sales	125,000	136,000	140,900	(4,261)	136,639	639	44,292	46,388	(2,240)	44,148	(144)
Franchise	67,000	67,000	63,720	(480)	63,240	(3,760)	-	-	-	-	-
Licenses and permits	12,000	8,000	12,965	-	12,965	4,965	-	-	-	-	-
Fines and forfeitures	929,400	974,000	1,069,874	-	1,069,874	95,874	-	-	-	-	-
Charges for current services	89,800	88,000	89,409	(170)	89,239	1,239	-	-	-	-	-
Revenues from use of money and property	9,300	6,000	7,078	-	7,078	1,078	2,904	1,447	-	1,447	(1,457)
Royalty fees - landfill	18,000	21,000	21,300	-	21,300	300	-	-	-	-	-
Other	15,200	21,500	24,715	5,000	29,715	8,215	8,603	1,460	8,603	10,063	1,460
Total revenues	<u>1,664,100</u>	<u>1,708,500</u>	<u>1,841,006</u>	<u>(13,003)</u>	<u>1,828,003</u>	<u>119,503</u>	<u>55,799</u>	<u>49,295</u>	<u>6,363</u>	<u>55,658</u>	<u>(141)</u>
EXPENDITURES											
Current:											
General government:	275,800	316,000	261,982	(1,479)	260,503	(55,497)	-	-	-	-	-
Public safety	635,200	784,500	663,440	(17,390)	646,050	(138,450)	-	-	-	-	-
Public works	363,900	388,500	290,126	(599)	289,527	(98,973)	-	-	-	-	-
Municipal court	177,000	194,500	152,890	464	153,354	(41,146)	-	-	-	-	-
Economic development	-	-	-	-	-	-	139,774	30,556	-	30,556	(109,218)
Total expenditures	<u>1,451,900</u>	<u>1,683,500</u>	<u>1,368,438</u>	<u>(19,004)</u>	<u>1,349,434</u>	<u>(334,066)</u>	<u>139,774</u>	<u>30,556</u>	<u>-</u>	<u>30,556</u>	<u>(109,218)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>212,200</u>	<u>25,000</u>	<u>472,568</u>	<u>6,001</u>	<u>478,569</u>	<u>453,569</u>	<u>(83,975)</u>	<u>18,739</u>	<u>6,363</u>	<u>25,102</u>	<u>109,077</u>
OTHER FINANCING SOURCES (USES)											
Transfers out	(496,800)	(298,500)	(385,060)	-	(385,060)	(86,560)	(19,163)	(18,764)	-	(18,764)	399
Total other financing sources and uses	<u>(496,800)</u>	<u>(298,500)</u>	<u>(380,060)</u>	<u>5,000</u>	<u>(385,060)</u>	<u>(86,560)</u>	<u>(19,163)</u>	<u>(18,764)</u>	<u>-</u>	<u>(18,764)</u>	<u>399</u>
Net change in fund balance	(284,600)	(273,500)	92,508	11,001	93,509	367,009	(103,138)	(25)	6,363	6,338	109,476
Fund balance at beginning of year	-	-	750,213	-	750,213	750,213	-	190,387	903	191,290	191,290
Fund balance at end of year	<u>\$ (284,600)</u>	<u>\$ (273,500)</u>	<u>\$ 842,721</u>	<u>\$ 11,001</u>	<u>\$ 843,722</u>	<u>\$ 1,117,222</u>	<u>\$ (103,138)</u>	<u>\$ 190,362</u>	<u>\$ 7,266</u>	<u>\$ 197,628</u>	<u>\$ 300,766</u>

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

Tourism Fund - This fund is used to account for Hotel/Motel taxes received to be used for attracting and promoting tourism authorized by statute.

Law Enforcement Officer's Standards and Education (LEOSE) Fund - This fund is used to account for monies received to train career law enforcement officers.

CITY OF PALMER, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2010

	Tourism	LEOSE	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 16,075	\$ 7,029	\$ 23,104
Investments	19,742	-	19,742
Receivables	608	-	608
Total assets	\$ 36,425	\$ 7,029	\$ 43,454
 LIABILITIES AND FUND BALANCES			
Liabilities	\$ -	\$ -	\$ -
 Fund balances:			
Unreserved, undesignated	36,425	7,029	43,454
Total liabilities and fund balances	\$ 36,425	\$ 7,029	\$ 43,454

CITY OF PALMER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2010

	Tourism	LEOSE	Total Nonmajor Governmental Funds
REVENUES			
Taxes:			
Hotel-motel tax	\$ 2,574	\$ -	\$ 2,574
Revenues from use of money and property	100	36	136
Intergovernmental	-	1,183	1,183
Total revenues	<u>2,674</u>	<u>1,219</u>	<u>3,893</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,674	1,219	3,893
Fund balances - beginning	<u>33,751</u>	<u>5,810</u>	<u>39,561</u>
Fund balances - ending	<u>\$ 36,425</u>	<u>\$ 7,029</u>	<u>\$ 43,454</u>

Debt Service Fund

DEBT SERVICE FUND

The debt service fund is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt.

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2010

	Original and Final Budgeted Amounts	Amounts GAAP Basis	Variance with Final Budget- Over (Under) Budget
Revenues:			
Interest	\$ -	\$ 6,152	\$ 6,152
Total revenues	<u>-</u>	<u>6,152</u>	<u>6,152</u>
Expenditures:			
Principal on bonds	135,000	130,104	(4,896)
Interest and fiscal charges	-	17,221	17,221
Paying agent fees	1,000	1,000	-
Bond issuance costs	-	45,963	45,963
Total expenditures	<u>136,000</u>	<u>194,288</u>	<u>58,288</u>
Excess (deficiency) of revenues over expenditures	<u>(136,000)</u>	<u>(188,136)</u>	<u>(52,136)</u>
Other financing sources (uses):			
Transfers in	236,000	245,060	9,060
Transfers out	(100,000)	(176,345)	(76,345)
Debt proceeds	-	1,256,222	1,256,222
Payment to refunded bond escrow agent	-	(1,165,000)	(1,165,000)
Premium on refunding bond	-	8,056	8,056
Total other financing sources (uses)	<u>136,000</u>	<u>167,993</u>	<u>31,993</u>
Net change in fund balance	-	(20,143)	(20,143)
Fund balance - beginning	<u>-</u>	<u>142,268</u>	<u>142,268</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 122,125</u>	<u>\$ 122,125</u>

Proprietary Fund

ENTERPRISE FUND

The City's water and sewer utility operations are accounted for in this fund.

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND SEWER
Year Ended September 30, 2010

	Budget Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Over (Under) Budget
	Original	Final				
Operating revenues:						
Water sales and penalties	\$ 525,000	\$ 540,000	\$ 560,145	\$ 439	\$ 560,584	\$ 20,584
Sewer service charge	240,000	230,000	231,280	(146)	231,134	1,134
Water and sewer taps	1,100	-	1,100	-	1,100	1,100
Reconnect fees	5,400	6,000	6,051	-	6,051	51
Miscellaneous	4,500	2,500	7,009	19,874	26,883	24,383
Total operating revenues	<u>776,000</u>	<u>778,500</u>	<u>805,585</u>	<u>20,167</u>	<u>825,752</u>	<u>47,252</u>
Operating expenses:						
Salaries	134,500	136,000	102,279	35,075	137,354	1,354
Overtime	4,900	4,000	5,380	(326)	5,054	1,054
Payroll taxes	10,700	12,000	11,079	(357)	10,722	(1,278)
Worker's compensation	6,400	4,000	4,416	-	4,416	416
Medical	31,100	33,000	28,153	(118)	28,035	(4,965)
Retirement	6,700	9,000	8,355	(626)	7,729	(1,271)
Training	1,300	1,000	1,099	-	1,099	99
Utilities	25,000	31,000	29,538	-	29,538	(1,462)
Telephone and cell	6,400	6,000	6,224	-	6,224	224
Engineer services	10,000	20,000	6,650	-	6,650	(13,350)
Miscellaneous contract services	26,000	21,000	18,138	22,896	41,034	20,034
Vehicle and equipment repair	10,000	7,000	2,976	-	2,976	(4,024)
Miscellaneous supplies and materials	63,300	21,000	16,046	47,468	63,514	42,514
Permits	1,900	4,000	3,002	-	3,002	(998)
Meter and pump repair	30,000	20,000	28,827	-	28,827	8,827
Uniforms	1,800	2,000	1,947	-	1,947	(53)
Water and sewer tests	14,400	12,000	13,066	-	13,066	1,066
Postage	3,400	4,000	3,930	-	3,930	(70)
Gas and oil	8,000	8,000	8,635	-	8,635	635
Chemicals	33,500	36,000	35,570	-	35,570	(430)
Pipes, clamps, meters	38,100	35,000	12,335	18,690	31,025	(3,975)
TRA buy - in agreement	1,100	1,000	1,058	-	1,058	58
Water purchases	290,600	291,000	248,200	42,340	290,540	(460)
TCEQ Fine	-	10,000	9,430	-	9,430	(570)
Capital outlay - fire hydrants	-	2,000	-	-	-	(2,000)
Capital outlay - CDBG	-	50,000	-	303,787	303,787	253,787
Capital outlay - other	205,000	63,000	11,000	97,639	108,639	45,639
Special projects	419,000	183,500	-	28,704	28,704	(154,796)
Depreciation and amortization	-	-	234,694	(234,694)	-	-
Total operating expenses	<u>1,383,100</u>	<u>1,026,500</u>	<u>852,027</u>	<u>360,478</u>	<u>1,212,505</u>	<u>186,005</u>
Operating income (loss)	<u>(607,100)</u>	<u>(248,000)</u>	<u>(46,442)</u>	<u>(340,311)</u>	<u>(386,753)</u>	<u>(138,753)</u>

CITY OF PALMER, TEXAS

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL (CONTINUED)
 ENTERPRISE FUND - WATER AND SEWER
 Year Ended September 30, 2010

	Budget Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Over (Under) Budget
	Original	Final				
Nonoperating revenue (expenses):						
Investment earnings	\$ 3,300	\$ 2,000	\$ 2,393	\$ -	\$ 2,393	\$ 393
Principal, interest and fiscal charges	(121,200)	(118,500)	(49,034)	(112,448)	(161,482)	(42,982)
Bond issuance costs	-	-	(1,179)	(11,236)	(12,415)	(12,415)
Total nonoperating revenue (expenses)	<u>(117,900)</u>	<u>(116,500)</u>	<u>(47,820)</u>	<u>(123,684)</u>	<u>(171,504)</u>	<u>(55,004)</u>
Income (loss) before contributions and transfers	(725,000)	(364,500)	(94,262)	(463,995)	(558,257)	(193,757)
Capital contributions	343,000	50,000	406,405	(129,682)	276,723	226,723
Transfer in	<u>382,000</u>	<u>314,500</u>	<u>335,109</u>	<u>-</u>	<u>335,109</u>	<u>20,609</u>
Change in net assets	-	-	647,252	(593,677)	53,575	53,575
Total net assets - beginning	-	-	2,692,387	-	2,692,387	2,692,387
Total net assets - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,339,639</u>	<u>\$ (593,677)</u>	<u>\$ 2,745,962</u>	<u>\$ 2,745,962</u>