

CITY OF PALMER, TEXAS

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2018

CITY OF PALMER, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis (unaudited)	4-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position - Proprietary Fund	18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	19
Statement of Cash Flows - Proprietary Fund	20
Notes to the Financial Statements	21-50
Required Supplementary Information:	
Schedule of Revenues and Expenditures - Budget and Actual - General Fund	52
Schedule of Changes in Net Pension Liability and Related Ratios	53
Schedule of Contributions	54
Schedule of Changes in Total OPEB Liability and Related Ratios	55

CITY OF PALMER, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2018

TABLE OF CONTENTS (continued)

	<u>PAGE</u>
Individual Fund Financial Statements and Schedules:	
Balance Sheet – Nonmajor Governmental Fund	57
Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Fund	58
Schedule of Revenues and Expenses – Budget and Actual – Enterprise Fund – Water and Sewer	60-61
Component Unit Financial Statement and Schedule:	
Balance Sheet - Palmer Economic Development Corporation	63
Schedule of Revenues and Expenditures - Budget and Actual - Palmer Economic Development Corporation	64



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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palmer, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palmer, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, net pension liability and total OPEB liability information on pages 4-11, 53-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palmer, Texas' basic financial statements. The individual fund and component unit financial statement and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and City Council
City of Palmer, Texas
Page Three

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

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Waxahachie, Texas
March 18, 2019

CITY OF PALMER, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Palmer, Texas, 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, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,661,774 (net position). Of this amount, \$19,554 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$75,984.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,179,747, an increase of \$1,652,458 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$398,743 or 19% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here 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 financial statements. This report also includes other supplementary information intended to furnish additional detail to support 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 position* presents financial information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported 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 other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and municipal court. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City 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 12-13 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 *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 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 four 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, Debt Service fund and Capital Projects fund, which are considered to be major funds. Data from the other fund is presented separately as non-major. Individual fund data for this non-major governmental fund is provided in the form of individual fund statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14-17 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 the activities of the 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 18-20 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 21-50 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's Schedule of Revenues and Expenditures - Budget and Actual - Major Governmental Funds, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions and the Schedule of Changes in Total OPEB Liability. Required supplementary information can be found on page 51-55 of this report.

This report also presents individual fund financial statements and schedules in connection with the nonmajor governmental funds and water and sewer fund. These individual fund financial statements and schedules can be found on pages 56-61 of this report.

In addition, this report presents a fund financial statement and schedule in connection with the Palmer Economic Development Corporation. The individual fund financial statement and schedule can be found on pages 62-64 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,661,774, at the close of the most recent fiscal year.

CITY OF PALMER'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$2,612,417	\$ 875,920	\$1,292,894	\$ 600,464	\$3,905,311	\$1,476,384
Capital assets	736,716	890,918	4,015,651	3,931,840	4,752,367	4,822,758
Total assets	<u>3,349,133</u>	<u>1,766,838</u>	<u>5,308,545</u>	<u>4,532,304</u>	<u>8,657,678</u>	<u>6,299,142</u>
Total deferred outflows of resources	<u>93,790</u>	<u>113,276</u>	<u>25,161</u>	<u>29,004</u>	<u>118,951</u>	<u>142,280</u>
Long term liabilities	3,104,389	407,466	188,834	649,413	3,293,223	1,056,879
Other liabilities	427,515	336,599	298,806	235,628	726,321	572,227
Total liabilities	<u>3,531,904</u>	<u>744,065</u>	<u>487,640</u>	<u>885,041</u>	<u>4,019,544</u>	<u>1,629,106</u>
Total deferred inflows of resources	<u>76,746</u>	<u>60,522</u>	<u>18,565</u>	<u>14,036</u>	<u>95,311</u>	<u>74,558</u>
Net position:						
Net invested in capital assets	518,809	606,657	3,855,517	3,330,002	4,374,326	3,936,659
Restricted	267,894	210,304	-	-	267,894	210,304
Unrestricted	(952,430)	258,566	971,984	332,229	19,554	590,795
Total net position	<u>\$ (165,727)</u>	<u>\$1,075,527</u>	<u>\$4,827,501</u>	<u>\$3,662,231</u>	<u>\$4,661,774</u>	<u>\$4,737,758</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

By far, the largest portion of the City's net position (94%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, infrastructure, and water rights), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, 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.

An additional portion of the City's net position (6%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$19,554 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

The City's total net investment in capital assets increased as the additions from capital outlays and work-in-progress exceeded depreciation and retirements.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's overall net position decreased \$75,984 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

CITY OF PALMER'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,402,100	\$ 1,316,496	\$ 1,009,249	\$ 933,180	\$ 2,411,349	\$ 2,249,676
Operating grants and contributions	2,142	33,683	18,000	18,443	20,142	52,126
Capital grants and contributions	-	-	112,938	239,000	112,938	239,000
General revenues:						
Property taxes	538,600	473,349	-	-	538,600	473,349
Sales taxes	264,944	229,519	-	-	264,944	229,519
Franchise taxes	73,274	63,894	-	-	73,274	63,894
Hotel-motel taxes	-	-	-	-	-	-
Royalty fees	62,513	79,614	-	-	62,513	79,614
Investment earnings	7,582	2,833	14,563	1,627	22,145	4,460
Gain on sale of capital assets	-	9,102	-	-	-	9,102
Miscellaneous	25,267	34,831	-	-	25,267	34,831
Total revenues	<u>2,376,422</u>	<u>2,243,321</u>	<u>1,154,750</u>	<u>1,192,250</u>	<u>3,531,172</u>	<u>3,435,571</u>
Expenses:						
General government	388,826	324,220	-	-	388,826	324,220
Public safety	967,810	851,952	-	-	967,810	851,952
Public works	605,560	593,492	-	-	605,560	593,492
Municipal court	264,863	250,194	-	-	264,863	250,194
Interest on long-term debt	178,379	16,536	-	-	178,379	16,536
Water and sewer	-	-	1,201,718	1,252,551	1,201,718	1,252,551
Total expenses	<u>2,405,438</u>	<u>2,036,394</u>	<u>1,201,718</u>	<u>1,252,551</u>	<u>3,607,156</u>	<u>3,288,945</u>
Increase in net position before transfers	(29,016)	206,927	(46,968)	(60,301)	(75,984)	146,626
Transfers	(1,212,238)	(88,206)	1,212,238	88,206	-	-
Change in net position	<u>(1,241,254)</u>	<u>118,721</u>	<u>1,165,270</u>	<u>27,905</u>	<u>(75,984)</u>	<u>146,626</u>
Net position - beginning	1,075,527	956,806	3,662,231	3,634,326	4,737,758	4,591,132
Net position - ending	<u>\$ (165,727)</u>	<u>\$ 1,075,527</u>	<u>\$ 4,827,501</u>	<u>\$ 3,662,231</u>	<u>\$ 4,661,774</u>	<u>\$ 4,737,758</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

Governmental Activities. During the current fiscal year, net position for governmental activities decreased \$1,241,254 from the prior fiscal year for an ending deficit balance of \$165,727. Transfers out increased \$1,124,032 in comparison with prior year.

Business-type Activities. For the City's business-type activities, the current fiscal year resulted in a net increase in net position with an ending balance of \$4,827,501. The total increase in net position for business-type activities (water and sewer operations) was \$1,165,270 from the prior fiscal year. Transfers in increased \$1,124,032 in comparison with the prior year due to the transfer of debt proceeds from bonds issued by the governmental funds.

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At September 30, 2018, the City's governmental funds reported combined fund balances of \$2,179,747, an increase of \$1,652,458 in comparison with the prior year. Approximately 18.3% of this amount (\$398,743) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either restricted or committed to indicate that it is 1) restricted for particular purposes (\$267,894) or 2) committed for particular purposes (\$12,182).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$398,743, while total fund balance increased to \$637,677. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 19.1 percent of total general fund expenditures, while total fund balance represents approximately 30.5 percent of that same amount.

The fund balance of the City's general fund increased by \$125,261 during the current fiscal year. Property tax revenues increased \$63,047 (13.3%) over prior year as a result of an increase in net taxable values and sales tax increased \$35,425 (15.4%) over prior year as a result of increase economic development.

The debt service fund, a major governmental fund, has a total fund balance of \$30,313. The net increase in fund balance during the current year in the debt service fund was \$24,929.

The capital projects fund, a major governmental fund, has a total fund balance of \$1,500,928. The net increase in fund balance during the current year in the debt service fund was \$1,500,928.

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 position of the Water and Sewer fund at the end of the year amounted to \$971,984. Net position increased in 2018 by \$1,165,270. Other factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights

Final budget compared to actual results. General fund actual revenues of \$2,349,002 exceeded budgeted revenues of \$2,342,000 by \$7,002. Budgeted general fund expenditures of \$2,155,000 exceeded actual expenditures of \$2,049,331 by \$105,669.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018 amounts to \$4,752,367 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure and water rights. The total decrease in capital assets for the current fiscal year was approximately 1.46%.

**City of Palmer's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 143,773	\$ 143,773	\$ 28,676	\$ 26,197	\$ 172,449	\$ 169,970
Construction in progress	-	-	380,157	30,250	380,157	30,250
Buildings	167,868	180,598	13,956	16,229	181,824	196,827
Improvements	47,253	51,722	3,506,763	3,783,097	3,554,016	3,834,819
Machinery and equipment	315,929	447,645	68,888	58,037	384,817	505,682
Infrastructure	61,893	67,180	-	-	61,893	67,180
Water rights	-	-	17,211	18,030	17,211	18,030
Total	\$ 736,716	\$ 890,918	\$ 4,015,651	\$ 3,931,840	\$ 4,752,367	\$ 4,822,758

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

- Construction in progress additions of \$350,000.
- Machinery and equipment additions of approximately \$86,000.
- Machinery and equipment disposals of approximately \$125,000.

Additional information on the City's capital assets can be found in note 2.D on pages 33-34 of this report.

Long-term Debt. At the end of the current fiscal year, the City had a total bonded debt of \$3,110,000. Of this amount, \$3,110,000 comprises bonded debt backed by the full faith and credit of the government.

City of Palmer's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Certificates of obligation	\$2,315,000	\$ -	\$ -	\$ 445,000	\$2,315,000	\$ 445,000
General obligation bonds	632,120	290,254	162,880	169,746	795,000	460,000
Total	\$2,947,120	\$ 290,254	\$ 162,880	\$ 614,746	\$3,110,000	\$ 905,000

The City's total debt increased by \$2,205,000 (243.65 percent) during the current fiscal year. The reason for the increase is the result of the issuance of two bonds.

Additional information on the City of Palmer's long term-debt can be found in note 2.G on pages 36-39 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2018-19 Budget, General Fund revenues increased 11% from the 2017-18 budget year with fines and forfeitures making up about 41% 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 POSITION
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Palmer Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 943,326	\$ 283,416	\$ 1,226,742	\$ 280,626
Investments	1,533,895	873,580	2,407,475	-
Receivables (net of allowance for uncollectibles)	128,622	103,635	232,257	-
Due from primary government	-	-	-	35,161
Internal balances	6,574	(6,574)	-	-
Inventories	-	38,837	38,837	-
Capital assets:				
Non-depreciable	143,773	408,833	552,606	-
Depreciable (net of accumulated depreciation)	592,943	3,606,818	4,199,761	-
Total Assets	<u>3,349,133</u>	<u>5,308,545</u>	<u>8,657,678</u>	<u>315,787</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	3,317	3,626	6,943	-
Deferred outflows of resources related to pension	86,466	20,578	107,044	-
Deferred outflows of resources related to OPEB	4,007	957	4,964	-
Total Deferred Outflows of Resources	<u>93,790</u>	<u>25,161</u>	<u>118,951</u>	<u>-</u>
LIABILITIES				
Accounts payable and other current liabilities	337,306	181,690	518,996	-
Accrued payroll payable	46,048	3,850	49,898	-
Accrued interest payable	9,000	1,820	10,820	-
Due to component unit	35,161	-	35,161	-
Customer deposits payable	-	111,446	111,446	-
Noncurrent liabilities:				
Due within one year	237,738	19,432	257,170	-
Due in more than one year	2,866,651	169,402	3,036,053	-
Total Liabilities	<u>3,531,904</u>	<u>487,640</u>	<u>4,019,544</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pension	76,746	18,565	95,311	-
Total Deferred Inflows of Resources	<u>76,746</u>	<u>18,565</u>	<u>95,311</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	518,809	3,855,517	4,374,326	-
Restricted for:				
Cultural and recreational	1,458	-	1,458	-
Debt service	30,313	-	30,313	-
Economic development	-	-	-	315,787
Public safety	236,123	-	236,123	-
Unrestricted	(952,430)	971,984	19,554	-
Total Net Position	<u>\$ (165,727)</u>	<u>\$ 4,827,501</u>	<u>\$ 4,661,774</u>	<u>\$ 315,787</u>

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

CITY OF PALMER, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2018

	Net (Expense) Revenue and Changes in Net Position							Component Unit	
	Program Revenues				Primary Government				Palmer Economic Development Corporation
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
<i>Function/Program:</i>									
Primary government:									
Governmental activities:									
General government	\$ 388,826	\$ 82,853	\$ 823	\$ -	\$ (305,150)	\$ -	\$ (305,150)	-	
Public safety	967,810	1,215,597	1,319	-	249,106	-	249,106	-	
Public works	605,560	103,650	-	-	(501,910)	-	(501,910)	-	
Municipal court	264,863	-	-	-	(264,863)	-	(264,863)	-	
Interest on long-term debt	178,379	-	-	-	(178,379)	-	(178,379)	-	
Total governmental activities	<u>2,405,438</u>	<u>1,402,100</u>	<u>2,142</u>	<u>-</u>	<u>(1,001,196)</u>	<u>-</u>	<u>(1,001,196)</u>	<u>-</u>	
Business-type activities:									
Water and sewer	1,201,718	1,009,249	18,000	112,938	-	(61,531)	(61,531)	-	
Total business-type activities	<u>1,201,718</u>	<u>1,009,249</u>	<u>18,000</u>	<u>112,938</u>	<u>-</u>	<u>(61,531)</u>	<u>(61,531)</u>	<u>-</u>	
Total primary government	<u>\$3,607,156</u>	<u>\$2,411,349</u>	<u>\$ 20,142</u>	<u>\$ 112,938</u>	<u>(1,001,196)</u>	<u>(61,531)</u>	<u>(1,062,727)</u>	<u>-</u>	
Component Unit									
Palmer Economic Development Corporation									
Corporation	\$ 19,560	\$ -	\$ -	\$ -				(19,560)	
Total component unit	<u>\$ 19,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(19,560)</u>	
General revenues:									
Property taxes					538,600	-	538,600	-	
Sales taxes					264,944	-	264,944	88,396	
Franchise taxes					73,274	-	73,274	-	
Royalty fees					62,513	-	62,513	-	
Investment earnings					7,582	14,563	22,145	515	
Miscellaneous					25,267	-	25,267	-	
Transfers					(1,212,238)	1,212,238	-	-	
Total general revenues and transfers					<u>(240,058)</u>	<u>1,226,801</u>	<u>986,743</u>	<u>88,911</u>	
Change in net position					<u>(1,241,254)</u>	<u>1,165,270</u>	<u>(75,984)</u>	<u>69,351</u>	
Net position - beginning , as restated					1,075,527	3,662,231	4,737,758	246,436	
Net position - ending					<u>\$ (165,727)</u>	<u>\$ 4,827,501</u>	<u>\$4,661,774</u>	<u>\$ 315,787</u>	

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

CITY OF PALMER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 932,497	\$ -	\$ -	\$ 10,829	\$ 943,326
Investments	8,017	24,950	1,500,928	-	1,533,895
Receivables (net of allowance for uncollectibles)	123,259	5,363	-	-	128,622
Due from other funds	6,574	-	-	-	6,574
Total assets	<u>\$ 1,070,347</u>	<u>\$ 30,313</u>	<u>\$ 1,500,928</u>	<u>\$ 10,829</u>	<u>\$ 2,612,417</u>
LIABILITIES					
Accounts payable	\$ 337,306	\$ -	\$ -	\$ -	\$ 337,306
Accrued payroll payable	46,048	-	-	-	46,048
Due to component unit	35,161	-	-	-	35,161
Total liabilities	<u>418,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,515</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property tax	14,155	-	-	-	14,155
FUND BALANCES					
Restricted:					
Capital projects	-	-	1,500,928	-	1,500,928
Cultural and recreational	1,458	-	-	-	1,458
Debt service	-	30,313	-	-	30,313
Public safety	225,294	-	-	10,829	236,123
Committed:					
Parks and recreation	12,182	-	-	-	12,182
Unassigned					
	398,743	-	-	-	398,743
Total fund balances	<u>637,677</u>	<u>30,313</u>	<u>1,500,928</u>	<u>10,829</u>	<u>2,179,747</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,070,347</u>	<u>\$ 30,313</u>	<u>\$ 1,500,928</u>	<u>\$ 10,829</u>	<u>\$ 2,612,417</u>

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

CITY OF PALMER, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2018

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

Total fund balances - governmental funds (page 14)		\$ 2,179,747
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		736,716
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		14,155
Deferred outflows of resources are not reported in the governmental funds:		
Deferred charges on refunding	\$ 3,317	
Deferred outflows of resources related to pension	86,466	
Deferred outflows of resources related to OPEB	4,007	93,790
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.		(9,000)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Due within one year	(237,738)	
Due in more than one year	(2,866,651)	(3,104,389)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred inflows of resources related to pension		(76,746)
Net position of governmental activities (page 12)		\$ (165,727)

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

CITY OF PALMER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2018

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 537,888	\$ -	\$ -	\$ -	\$ 537,888
Sales taxes	264,944	-	-	-	264,944
Franchise taxes	73,274	-	-	-	73,274
Licenses and permits	82,853	-	-	-	82,853
Fines and forfeitures	1,215,597	-	-	-	1,215,597
Charges for current services	103,650	-	-	-	103,650
Investment earnings	5,202	1,434	928	21	7,585
Royalty fees - landfill	62,513	-	-	-	62,513
Other	14,147	-	-	-	14,147
Intergovernmental	-	-	-	1,319	1,319
Contributions and donations	11,941	-	-	-	11,941
Total revenues	<u>2,372,009</u>	<u>1,434</u>	<u>928</u>	<u>1,340</u>	<u>2,375,711</u>
EXPENDITURES					
Current:					
General government	311,266	-	-	-	311,266
Public safety	954,477	-	-	-	954,477
Public works	573,027	-	-	-	573,027
Municipal court	250,023	-	-	-	250,023
Debt service:					
Principal retirement	-	173,134	-	-	173,134
Interest and fiscal charges	-	31,605	-	-	31,605
Bond issuance costs	-	61,478	74,710	-	136,188
Total expenditures	<u>2,088,793</u>	<u>266,217</u>	<u>74,710</u>	<u>-</u>	<u>2,429,720</u>
Excess (deficiency) of revenues over (under) expenditures	<u>283,216</u>	<u>(264,783)</u>	<u>(73,782)</u>	<u>1,340</u>	<u>(54,009)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	181,950	-	-	181,950
Transfers out	(181,950)	(1,212,238)	-	-	(1,394,188)
Certificates of obligation issued	-	835,000	1,510,000	-	2,345,000
General obligation bonds issued	-	485,000	-	-	485,000
Premium on bonds issued	-	-	64,710	-	64,710
Insurance proceeds	23,995	-	-	-	23,995
Total other financing sources (uses)	<u>(157,955)</u>	<u>289,712</u>	<u>1,574,710</u>	<u>-</u>	<u>1,706,467</u>
Net change in fund balances	125,261	24,929	1,500,928	1,340	1,652,458
Fund balances - beginning	512,416	5,384	-	9,489	527,289
Fund balances - ending	<u>\$ 637,677</u>	<u>\$ 30,313</u>	<u>\$ 1,500,928</u>	<u>\$ 10,829</u>	<u>\$ 2,179,747</u>

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

CITY OF PALMER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2018

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net Change in Fund Balances - total governmental funds (page 16)		\$ 1,652,458
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, 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.		58,266
The net effect of various miscellaneous transactions involving capital assets (i.e., asset retirements/disposals) is to decrease net position.		(69,695)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.		(142,773)
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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these 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	\$ (2,830,000)	
Premium on bonds issued	(64,710)	
Bond principal retirement	173,134	
Amortization of bond premiums/discounts	318	
Amortization of bond refunding gains	<u>(3,315)</u>	(2,724,573)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, 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.		(7,589)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		712
Pension and OPEB contributions are recorded as expenditures in the governmental funds. However, in the statement of activities, these contributions are converted to the full accrual pension and OPEB amounts.		
Deferred outflows/inflows of resources related to pension	(35,296)	
Deferred outflows/inflows of resources related to OPEB	<u>2,901</u>	(32,395)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences	(10,792)	
Net pension liability	40,709	
OPEB liability	<u>(5,582)</u>	<u>24,335</u>
Change in net position of governmental activities (page 13)		<u><u>\$ (1,241,254)</u></u>

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

CITY OF PALMER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2018

	Business-type Activities - Enterprise (Water and Sewer) Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 283,416
Investments	873,580
Receivables (net of allowance for uncollectibles)	103,635
Inventories	38,837
Total current assets	1,299,468
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	4,015,651
Total noncurrent assets	4,015,651
Total assets	5,315,119
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	3,626
Deferred outflows of resources related to pension	20,578
Deferred outflows of resources related to OPEB	957
Total deferred outflows of resources	25,161
LIABILITIES	
Current liabilities:	
Accounts payable	181,690
Accrued payroll payable	3,850
Due to other funds	6,574
Accrued interest payable	1,820
Compensated absences	11,552
Customer deposits payable	111,446
Bonds payable	7,880
Total current liabilities	324,812
Noncurrent liabilities:	
Net pension liability	6,301
Total OPEB liability	7,221
Bonds payable	155,880
Total noncurrent liabilities	169,402
Total liabilities	494,214
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pension	18,565
Total deferred inflows of resources	18,565
NET POSITION	
Net investment in capital assets	3,855,517
Unrestricted	971,984
Total net position	\$ 4,827,501

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

CITY OF PALMER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2018

	Business-type Activities - Enterprise (Water and Sewer) Fund
Operating revenues:	
Water sales and penalties	\$ 658,892
Sewer service charge	304,778
Water and sewer taps	28,170
Reconnect fees	4,615
Miscellaneous	12,794
Total operating revenues	1,009,249
Operating expenses:	
Water and sewer operations	883,890
Depreciation and amortization	303,367
Total operating expenses	1,187,257
Operating income (loss)	(178,008)
Nonoperating revenue (expenses):	
Investment earnings	14,563
Contribution from component unit	18,000
Interest and fiscal charges	(14,461)
Total nonoperating revenue (expenses)	18,102
Income (loss) before capital contributions and transfers	(159,906)
Capital contributions	112,938
Transfer in	1,212,238
Change in net position	1,165,270
Net position - beginning, as restated	3,662,231
Net position - ending	\$ 4,827,501

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

CITY OF PALMER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2018

	Business-type Activities - Enterprise (Water and Sewer) Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,022,466
Payments to suppliers	(638,021)
Payments to employees	(268,324)
Net cash provided by (used for) operating activities	116,121
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Repayment of advances from other funds	5,082
Contribution from component unit	18,000
Transfers from other funds	1,212,238
Net cash provided by (used for) noncapital financing activities	1,235,320
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contribution	139,701
Acquisition and construction of capital assets	(297,475)
Principal paid on bond maturities	(451,866)
Interest and fiscal charges paid on bonds	(18,538)
Net cash provided by (used for) capital and related financing activities	(628,178)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	14,563
Net cash provided by investing activities	14,563
Net increase in cash and cash equivalents	737,826
Cash and cash equivalents - beginning	419,170
Cash and cash equivalents - ending	\$ 1,156,996
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (178,008)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	303,367
(Increase) decrease in accounts receivable	19,197
(Increase) decrease in inventory	(5,646)
Increase (decrease) in accounts payable and accrued expenses	(9,647)
Increase (decrease) in accrued payroll payable	(6,659)
Increase (decrease) in compensated absences	405
Increase (decrease) in customer deposits	(5,980)
Increase (decrease) in net pension liability	(908)
Total adjustments	294,129
Net cash provided by (used for) operating activities	\$ 116,121
Noncash investing, capital and financing activities:	
Capital assets purchased on account	\$ 146,000

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

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

B. Reporting entity

The City of Palmer, Texas (the "City") was incorporated in 1921. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit.

Discretely presented component unit. The Corporation described below is included in the City's reporting entity because the City appoints the governing body and the Corporation is fiscally dependent on the City. The Corporation is reported as a discretely presented component unit since the governing body is not substantively the same as the governing body of the City, and it provides services to the citizens of Palmer and the surrounding area as opposed to only the primary government. To emphasize that it is legally separate from the City, it is reported in a separate column in the financial statements.

The *Palmer Economic Development Corporation* (the "Corporation") is responsible for disbursing the one-half 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. The City can impose its will on the Corporation by significantly influencing the program, projects, activities, or level of service performed by the Corporation. The Corporation is presented in the governmental-wide financial statements and has a September 30 year end.

Separate financial statements for the Corporation are not issued.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting entity (continued)

Payments between the City and Component Unit. Resource flows (except those that affect the statement of net position/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component unit is reported as external transactions—that is, as revenues and expenses/expenditures. Payments from the Corporation to the City are primarily subsidized funding for capital construction and other development projects for the benefit of the City.

C. Basis of presentation - government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary fund.

As discussed earlier, the City has a discretely presented component unit. The Palmer Economic Development Corporation is considered to be a major component unit and is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between 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.

D. Basis of presentation - fund financial statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 *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.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation - fund financial statements (continued)

The *capital projects fund* is used to account for capital improvements from issuance of certificate of obligation.

The City reports the following major enterprise fund:

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

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting (continued)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

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.

2. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in TexSTAR.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools.

J.P. Morgan Investment Management Inc. ("JPMIM" or the "investment manager") and Hilltop Securities Inc. ("HTS") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the "Board"). JPMIM provides investment management services, and First Southwest, A Division of HTS, provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. ("BFDS" or the "Transfer Agent"). Each of JPMIM, HTS, BFDS, and JPMorgan Chase Bank, N.A. may provide certain services, including those described herein, through the use of subcontractors or delegates.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses 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 the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Receivables and allowances for doubtful accounts

All trade and property tax receivables are shown net of an allowance for uncollectibles. All past due trade accounts receivables comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at year end.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), 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 \$1,000 and an estimated useful life in excess of one year.

As the City constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings	15-30
Improvements	5-40
Machinery and equipment	3-10
Infrastructure	10-15
Water rights	40

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

6. 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. Deferred outflows of resources reported in this year's financial statements include (1) a deferred outflow of resources related to changes in actuarial assumptions of the City's defined benefit pension plan, (2) a deferred outflow of resources for contributions made to the City's defined benefit pension plan between the measurement date of the net pension liabilities from that plan and the end of the City's fiscal year, (3) a deferred outflow of resources related to the difference between expected and actual pension experience data used by the actuary, and (4) deferred charge on refunding. Deferred outflows for changes in actuarial assumptions is attributed to pension expense over a total of 2.59 years. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. Deferred outflows for difference in expected and actual pension experience is attributed to pension expense over a total of 4.09 years. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. No deferred outflows of resources affect the governmental funds financial statements in the current year.

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. Deferred inflows of resources reported in the City's various statements of net position include (1) a deferred inflow of resources related to the difference between expected and actual experience data used by the actuary and (2) deferred inflows of resources related to the differences between the projected and actual investment earnings for the City's multiple-employer defined benefit plan. Deferred inflows for the difference in expected and actual pension experience is attributed to pension expense over a total of 3.35 years. The differences between projected and actual investment earnings are attributed to pension expense over a total of 5 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenue from property taxes is reported in the governmental funds balance sheet.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

7. Long-term obligations

In the government-wide financial statements, and proprietary fund type 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 statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

8. Net position flow assumption

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

9. Fund balance flow assumption

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—amounts that are not in spendable form (such as inventories and prepaid items) or are required to be maintained intact.

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Councils). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the general fund.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

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 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.

3. Compensated absences

The City's policy permits employees to accumulate 240 hours of earned but unused paid time off benefits before it has to be taken or sold. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Paid time off shall be taken during the year following its accumulation.

4. Proprietary funds operating and nonoperating revenues and expenses

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 fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

5. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. New GASB pronouncement

The Governmental Accounting Standards Board has issued a new pronouncement that the City has reviewed for application to their accounting and reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017, replaces the requirements of GASB Statements No. 45 and 57 for OPEB. The standard requires government employers to recognize a total OPEB liability in the Statement of Net Position and more immediate recognition of annual service cost, interest and changes in benefits for OPEB expense; and changes disclosure requirements.

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or 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. At year-end, the City's bank balance was \$1,287,533. Of the bank balance, \$253,592 was covered by federal depository insurance and the remaining balance, \$1,033,941 was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping departments of the pledging bank's agent and had a fair value of approximately \$1,079,000.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

B. 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.

TexSTAR operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act. The Pool has a credit rating of AAAM from Standard & Poor’s Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

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>\$2,407,475</u>	N/A	AAAm

Concentration of credit risk. The City's investment policy contains no limitations on the amount that can be invested in any one issuer.

TexSTAR is considered a cash equivalent on the Government-wide Statement of Net Position and on the Balance Sheets of the Fund Financial Statements.

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general and water and sewer funds in the aggregate, including the applicable allowances for uncollectible accounts:

<u>Receivables:</u>	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>	<u>Total</u>
Taxes	\$ 133,202	\$ -	\$ -	\$ 133,202
Accounts	1,380	5,363	108,916	115,659
Gross receivables	134,582	5,363	108,916	248,861
Less: allowance for uncollectibles	(11,323)	-	(5,281)	(16,604)
Net receivables	<u>\$ 123,259</u>	<u>\$ 5,363</u>	<u>\$ 103,635</u>	<u>\$ 232,257</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Capital assets

Capital asset activity for the year ended September 30, 2018, was as follows:

Governmental activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 143,773	\$ -	\$ -	\$ 143,773
Total capital assets not being depreciated	<u>143,773</u>	<u>-</u>	<u>-</u>	<u>143,773</u>
Capital assets being depreciated:				
Buildings	323,954	-	-	323,954
Improvements	89,135	-	-	89,135
Machinery and equipment	854,989	58,266	(125,331)	787,924
Infrastructure	147,703	-	-	147,703
Totals capital assets being depreciated	<u>1,415,781</u>	<u>58,266</u>	<u>(125,331)</u>	<u>1,348,716</u>
Less accumulated depreciation for:				
Buildings	(143,356)	(12,730)	-	(156,086)
Improvements	(37,413)	(4,469)	-	(41,882)
Machinery and equipment	(407,344)	(120,287)	55,636	(471,995)
Infrastructure	(80,523)	(5,287)	-	(85,810)
Total accumulated depreciation	<u>(668,636)</u>	<u>(142,773)</u>	<u>55,636</u>	<u>(755,773)</u>
Total capital assets, being depreciated, net	<u>747,145</u>	<u>(84,507)</u>	<u>(69,695)</u>	<u>592,943</u>
Governmental activities capital assets, net	<u>\$ 890,918</u>	<u>\$ (84,507)</u>	<u>\$ (69,695)</u>	<u>\$ 736,716</u>

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

Governmental activities:

General government	\$ 7,978
Public safety	13,675
Public works	89,003
Municipal court	32,117
Total depreciation expense - governmental activities	<u>\$ 142,773</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Capital assets (continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 26,197	\$ 2,479	\$ -	\$ 28,676
Construction in progress	30,250	349,907	-	380,157
Total capital assets not being depreciated	<u>56,447</u>	<u>352,386</u>	<u>-</u>	<u>408,833</u>
Capital assets being depreciated:				
Buildings	68,204	-	-	68,204
Improvements	7,349,677	7,500	-	7,357,177
Machinery and equipment	255,625	27,290	-	282,915
Water rights	32,783	-	-	32,783
Total capital assets being depreciated	<u>7,706,289</u>	<u>34,790</u>	<u>-</u>	<u>7,741,079</u>
Less accumulated depreciation for:				
Buildings	(51,975)	(2,273)	-	(54,248)
Improvements	(3,566,580)	(283,834)	-	(3,850,414)
Machinery and equipment	(197,588)	(16,439)	-	(214,027)
Water rights	(14,753)	(819)	-	(15,572)
Total accumulated depreciation	<u>(3,830,896)</u>	<u>(303,365)</u>	<u>-</u>	<u>(4,134,261)</u>
Total capital assets being depreciated, net	<u>3,875,393</u>	<u>(268,575)</u>	<u>-</u>	<u>3,606,818</u>
Business-type capital assets, net	<u><u>\$ 3,931,840</u></u>	<u><u>\$ 83,811</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,015,651</u></u>

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

E. Construction and other significant commitments

Construction commitments. The City has active construction projects as of September 30, 2018. The projects include water and sewer system improvements. At year end, the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining commitment
Water and sewer system improvements	<u>\$ 153,000</u>	<u>\$ 672,150</u>

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

CITY OF PALMER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Construction and other significant commitments (continued)

Raw Water Rights. 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.

Treated Water. 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
10/01/18	05/31/26	\$ 29,504	\$ 354,048	\$2,714,368

Actual payments for the year ended September 30, 2018 were \$361,715.

F. 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.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities

Certificates of Obligation -

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for governmental 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 governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2017	\$ 835,000	8/1/2027	1.99	\$ 805,000
2018	1,510,000	8/1/2048	1.8-3.85	1,510,000
				<u>\$ 2,315,000</u>

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.

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	3.0-5.125	\$ 147,120
2017 Refunding	485,000	8/1/2027	2.0	485,000
				<u>\$ 632,120</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	3.0-5.125	<u>\$ 162,880</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities (continued)

Compensated Absences -

Compensated absences represent the estimated liability for employees' paid time off benefits for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Water and Sewer Fund based on the assignment of an employee at termination.

Net Pension Liability -

The net pension liability represents the liability for employees' projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the pension plan's fiduciary net position.

Total OPEB Liability

The total OPEB liability represents the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statement No. 75.

Changes in long-term liabilities

Changes in the government's long-term liabilities for the year ended September 30, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Certificates of obligation	\$ -	\$ 2,345,000	\$ (30,000)	\$ 2,315,000	\$ 55,000
General obligation refunding bonds	290,254	485,000	(143,134)	632,120	147,120
Less deferred amounts:					
For issuance discount	(972)	-	488	(484)	-
For issuance premium	1,612	64,710	(806)	65,516	-
Total bonds payable	290,894	2,894,710	(173,452)	3,012,152	202,120
Compensated absences	24,826	65,780	(54,988)	35,618	35,618
Net pension liability	67,096	-	(40,709)	26,387	-
Total OPEB liability	24,650	5,582	-	30,232	-
Governmental activity					
Long-term liabilities	<u>\$ 407,466</u>	<u>\$ 2,966,072</u>	<u>\$ (269,149)</u>	<u>\$ 3,104,389</u>	<u>\$ 237,738</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities (continued)

Certificates of obligation, general obligation refunding bonds issued for governmental activity purposes are liquidated by the Debt Service fund. Governmental compensated absences, net pension liability and total OPEB liability will be liquidated by the General fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Certificates of obligation	\$ 445,000	\$ -	\$ (445,000)	\$ -	\$ -
General obligation refunding bonds	169,746	-	(6,866)	162,880	7,880
Less deferred amounts:					
For issuance premium	932	-	(52)	880	-
Total bonds payable	615,678	-	(451,918)	163,760	7,880
Compensated absences	11,147	15,532	(15,127)	11,552	11,552
Net pension liability	16,700	-	(10,399)	6,301	-
Total OPEB liability	5,888	1,333	-	7,221	-
Business-type activity Long-term liabilities	<u>\$ 649,413</u>	<u>\$ 16,865</u>	<u>\$ (477,444)</u>	<u>\$ 188,834</u>	<u>\$ 19,432</u>

General obligation refunding bonds issued for business-type activities are repaid from those activities. Business-type compensated absences, net pension liability and total OPEB liability will be liquidated by those activities.

Annual debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Governmental Activities</u>	
	<u>Certificates of Obligation</u>		<u>General Obligation Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 55,000	\$ 68,663	\$ 147,120	\$ 12,901
2020	120,000	75,160	55,000	9,700
2021	125,000	72,169	60,000	8,600
2022	125,000	69,078	60,000	7,400
2023	130,000	65,988	60,000	6,200
2024-2028	580,000	280,786	250,000	12,700
2029-2033	215,000	221,050	-	-
2034-2038	260,000	172,800	-	-
2039-2043	320,000	116,400	-	-
2044-2048	385,000	47,600	-	-
	<u>\$ 2,315,000</u>	<u>\$ 1,189,694</u>	<u>\$ 632,120</u>	<u>\$ 57,501</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities (continued)

Year Ending September 30	Business-Type Activities	
	General Obligation	
	Refunding Bonds	
	Principal	Interest
2019	\$ 7,880	\$ 10,943
2020	5,000	7,944
2021	10,000	7,688
2022	5,000	7,175
2023	5,000	6,919
2024-2028	50,000	28,188
2029-2033	50,000	15,375
2034-2035	30,000	2,306
	<u>\$ 162,880</u>	<u>\$ 86,538</u>

H. Interfund receivables and payables

The composition of interfund balances as of September 30, 2018 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	<u>\$ 6,574</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

I. Interfund transfers

The composition of interfund transfers as of September 30, 2018 is as follows:

	Transfer In:		
	Debt Service	Water and Sewer	Total
Transfer out:			
General	\$ 181,950	\$ -	\$ 181,950
Debt Service	-	1,212,238	1,212,238
	<u>\$ 181,950</u>	<u>\$ 1,212,238</u>	<u>\$ 1,394,188</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

I. Interfund transfers (continued)

Transfers are primarily used to move funds from:

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

J. Related party transactions

The significant transactions between the primary government and its component unit during the year ended September 30, 2018 consisted of water line improvements financing payments in the amount of \$18,000.

K. 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.

L. Subsequent events

Subsequent to year end, the City:

- Entered into a three year contract for professional service in the amount of \$320,400.
- Purchased property in the amount of \$80,000.
- Entered into an engineering contract for approximately \$60,000.

M. Discretely presented component unit

1. Palmer Economic Development Corporation (Corporation)

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or 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. At year end the bank balance of the Corporation's deposits was \$280,626. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance, \$30,626 was uninsured and uncollateralized.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

N. Prior period adjustment

The implementation of GASB Statement No. 75 discussed in note 1. H. resulting in a restatement beginning net position for the governmental activities and business-type activities in the government-wide financial statements and to the beginning net position in the fund financial statements. Prospectively applying this change results in the adjustment below.

Corrections have been made to the business-type activities beginning net position in the government-wide financial statements and to the net position in the fund financial statements due to an error in classification and recording financial transaction in the prior period, resulting in an understatement of liabilities and overstatement of net position. The change to the beginning net position as of October 1, 2017 is summarized as follows:

	Government-wide Financial Statements		Fund Financial Statements
	Governmental Activities	Business-type Activities	Water and Sewer
As previously reported, October 1, 2017	\$ 1,099,071	\$ 3,677,855	\$ 3,677,855
Deferral for OPEB contributions made after the measurement date	1,106	264	264
Recording of total OPEB liability as of September 30, 2017	(24,650)	(5,888)	(5,888)
Understatement of bonds payable	-	(10,000)	(10,000)
Restated, October 1, 2017	<u>\$ 1,075,527</u>	<u>\$ 3,662,231</u>	<u>\$ 3,662,231</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS

A. Plan description

The City of Palmer, Texas participates as one of 883 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 (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the 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.

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

B. Benefits provided

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

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

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

B. Benefits provided (continued)

	Plan Provisions
Employee deposit rate	5%
Municipal current matching ratio	2 - 1
Updated service credits:	
Rate (%)	100 T
Year effective	2002R
Increase benefits to retirees:	
Rate (%) ⁽¹⁾	70
Year effective	2002R
Vesting	5 yrs
Service retirement eligibilities	5 yrs/age 60, 25 yrs/any age
Supplemental death benefits:	
Employees	Yes
Retirees	Yes
Statutory maximum (%)	11.5%

⁽¹⁾ For years prior to 1982, the rate is the actual percentage in annuities. For 1982 and later, the rate is the percentage of the change in the CPI-U since retirement date, granted to each annuitant as an increase of the original annuity.

T — Includes Transfer Credits.

R — Annually Repeating. Ordinance automatically renews effective January 1 of each successive year.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	30
Active employees	23
	58

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

C. Contributions

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

Employees for the City of Palmer, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Palmer, Texas were 6.94% and 6.66% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$80,022, and were equal to the required contributions.

D. Net pension liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rates (APRs) are based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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, the actuary 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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100%	

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total	Plan	Net
	Pension	Fiduciary	Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 1,636,901	\$ 1,553,105	\$ 83,796
Changes for the year:			
Service cost	133,705	-	133,705
Interest	113,635	-	113,635
Difference between expected and actual experience	55,981	-	55,981
Contributions - employer	-	81,749	(81,749)
Contributions - employee	-	58,901	(58,901)
Net investment income	-	214,952	(214,952)
Benefit payments, including refunds of employee contributions	(40,538)	(40,538)	-
Administrative expense	-	(1,116)	1,116
Other changes	-	(57)	57
Net Changes	\$ 262,783	\$ 313,891	\$ (51,108)
Balance at 12/31/2016	\$ 1,899,684	\$ 1,866,996	\$ 32,688

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:

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

	<u>1.0% Decrease in Discount Rate (5.75%)</u>		<u>Discount Rate (6.75%)</u>		<u>1.0% Increase in Discount Rate (7.75%)</u>
City's net pension liability	\$ 427,352	\$	32,688	\$	(276,593)

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.

Payables to the Pension Plan - Legally required contributions outstanding at the end of the year totaled \$6,336.

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

For the year ended September 30, 2018, the City recognized pension expense of \$73,054.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Changes in actuarial assumptions	\$ 5,751		\$ 1,304	
Difference between projected and actual investment earnings	-	39,532	-	9,863
Contributions subsequent to the measurement date	46,574		11,121	
Differences between expected and actual economic experience	34,141	37,214	8,153	8,702
Total	<u>\$ 86,466</u>	<u>\$ 76,746</u>	<u>\$ 20,578</u>	<u>\$ 18,565</u>

\$57,695 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 asset for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	
2018	\$ (9,648)
2019	(4,548)
2020	(10,974)
2021	<u>(20,792)</u>
Total	<u>\$ (45,962)</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

A. Plan description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e. , no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

B. Benefits provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500.

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.

C. Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>23</u>
	33

D. Total OPEB liability

The City's total OPEB liability of \$37,453 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)

D. Total OPEB liability (continued)

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50%, including inflation
Discount rate*	3.31%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2016	\$ 30,538
Changes for the year:	
Service cost	1,649
Interest	1,186
Changes in assumptions or other inputs	4,080
Net Changes	<u>\$ 6,915</u>
Balance at 12/31/2017	<u>\$ 37,453</u>

CITY OF PALMER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)

D. Total OPEB liability (continued)

Sensitivity of the total OPEB liability to changes in the discount rate -

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

	<u>1.0% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1.0% Increase in Discount Rate (4.31%)</u>
City's total OPEB liability	\$ 48,283	\$ 37,453	\$ 29,467

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$3,424. At September 30, 2018, the City reported deferred outflows of resources and related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Changes in assumptions and other inputs	\$ 2,818	\$ 673
Contributions subsequent to the measurement date	1,189	284
Total	<u>\$ 4,007</u>	<u>\$ 957</u>

\$1,473 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>		
2018	\$	589
2019		589
2020		589
2021		589
2022		589
Thereafter		546
Total	<u>\$</u>	<u>3,491</u>

F. Payable to the OPEB Plan

At September 30, 2018, the City reported a payable of \$162 for the outstanding amount of contributions to the Plan required for the year ended September 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

These supplementary schedules are included to supplement the basic financial statements as required by Governmental Accounting Standards Board.

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended September 30, 2018

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget - Over (Under) Budget
REVENUES					
Property taxes	\$ 523,000	\$ 537,888	\$ (687)	\$ 537,201	\$ 14,201
Sales taxes	208,000	264,944	(26,953)	237,991	29,991
Franchise taxes	66,000	73,274	(434)	72,840	6,840
Licenses and permits	114,000	82,853	-	82,853	(31,147)
Fines and forfeitures	1,221,000	1,215,597	(3,125)	1,212,472	(8,528)
Charges for current services	105,000	103,650	8,192	111,842	6,842
Investment earnings	2,000	5,202	-	5,202	3,202
Royalty fees - landfill	84,000	62,513	-	62,513	(21,487)
Other	12,000	14,147	-	14,147	2,147
Contributions and donations	7,000	11,941	-	11,941	4,941
Total revenues	<u>2,342,000</u>	<u>2,372,009</u>	<u>(23,007)</u>	<u>2,349,002</u>	<u>7,002</u>
EXPENDITURES					
Current:					
General government	329,000	311,266	(816)	310,450	(18,550)
Public safety	995,000	954,477	(31,967)	922,510	(72,490)
Public works	549,000	573,027	(814)	572,213	23,213
Municipal court	282,000	250,023	(5,865)	244,158	(37,842)
Total expenditures	<u>2,155,000</u>	<u>2,088,793</u>	<u>(39,462)</u>	<u>2,049,331</u>	<u>(105,669)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>187,000</u>	<u>283,216</u>	<u>16,455</u>	<u>299,671</u>	<u>112,671</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	(257,000)	(181,950)	-	(181,950)	75,050
Insurance proceeds	-	23,995	23,995	-	-
Total other financing sources (uses)	<u>(257,000)</u>	<u>(157,955)</u>	<u>23,995</u>	<u>(181,950)</u>	<u>75,050</u>
Net change in fund balance	<u>\$ (70,000)</u>	<u>\$ 125,261</u>	<u>\$ 40,450</u>	<u>\$ 117,721</u>	<u>\$ 187,721</u>

NOTES TO BUDGETARY INFORMATION

1. Budgetary basis of accounting

An annual budget for the general is adopted on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

CITY OF PALMER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017
Total pension liability				
Service Cost	\$ 93,929	\$ 112,025	\$ 127,696	\$ 133,705
Interest (on the Total Pension Liability)	89,048	98,505	103,101	113,635
Difference between expected and actual experience	(25,964)	(70,953)	(32,959)	55,981
Changes of assumptions	-	20,366	-	-
Benefit payments, including refunds of employee contributions	(15,765)	(46,147)	(49,008)	(40,538)
Net Change in Total Pension Liability	141,248	113,796	148,830	262,783
Total Pension Liability - Beginning	1,233,027	1,374,275	1,488,071	1,636,901
Total Pension Liability - Ending (a)	\$ 1,374,275	\$ 1,488,071	\$ 1,636,901	\$ 1,899,684
Plan Fiduciary Net Position				
Contributions - Employer	\$ 53,206	\$ 71,003	\$ 75,547	\$ 81,749
Contributions - Employee	45,083	50,644	55,714	58,901
Net Investment Income	66,088	1,923	93,010	214,952
Benefit payments, including refunds of employee contributions	(15,765)	(46,147)	(49,008)	(40,538)
Administrative Expense	(690)	(1,171)	(1,052)	(1,116)
Other	(57)	(58)	(57)	(57)
Net Change in Plan Fiduciary Net Position	147,865	76,194	174,154	313,891
Plan Fiduciary Net Position - Beginning	1,154,892	1,302,757	1,378,951	1,553,105
Plan Fiduciary Net Position - Ending (b)	\$ 1,302,757	\$ 1,378,951	\$ 1,553,105	\$ 1,866,996
Net Pension Liability - Ending (a) - (b)	\$ 71,518	\$ 109,120	\$ 83,796	\$ 32,688
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.80%	92.67%	94.88%	98.28%
Covered Payroll	901,662	1,012,881	1,114,274	1,178,014
Net Pension Liability as a Percentage of Covered Payroll	7.93%	10.77%	7.52%	2.77%

Notes to Schedule:

N/A

CITY OF PALMER, TEXAS
SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 63,451	\$ 77,607	\$ 79,989	\$ 80,022
Contributions in relation to the actuarially determined contribution	<u>63,451</u>	<u>77,607</u>	<u>79,989</u>	<u>80,022</u>
Contribution deficiency (excess)	-	-	-	-
Covered payroll	940,762	1,107,997	1,159,573	1,188,005
Contributions as a percentage of covered payroll	6.74%	7.00%	6.90%	6.74%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal
Amortization Method Level Percentage of Payroll, Closed
Remaining Amortization Period 29 years
Asset Valuation Method 10 Year smoothed market; 15% soft corridor
Inflation 2.50%
Salary Increases 3.50% to 10.50% including inflation
Investment Rate of Return 6.75%
Retirement Age Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.

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

Other Information:

Notes There were no benefit changes during the year.

CITY OF PALMER, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
 Last 10 Years (will ultimately be displayed)

	2017
Total OPEB liability	
Service Cost	\$ 1,649
Interest (on the Total Pension Liability)	1,186
Changes of assumptions and other inputs	4,080
Net Change in Total OPEB Liability	6,915
Total OPEB Liability - Beginning	30,538
Total OPEB Liability - Ending	\$ 37,453
 Covered Payroll	 1,178,014
 Total OPEB Liability as a Percentage of Covered Payroll	 3.18%

Notes to Schedule:

Note 1 - No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Note 2 - The actuarial assumptions and other inputs used to calculate the total OPEB liability are described in note 5.D to the financial statements.

Note 3 - Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

NONMAJOR GOVERNMENTAL FUND

SPECIAL REVENUE FUND

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.

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
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
September 30, 2018

	LEOSE	Total Nonmajor Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 10,829	\$ 10,829
Total assets	\$ 10,829	\$ 10,829
LIABILITIES		
	\$ -	\$ -
FUND BALANCES		
Restricted:		
Public safety	10,829	10,829
Total fund balance	10,829	10,829
Total liabilities and fund balances	\$ 10,829	\$ 10,829

CITY OF PALMER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
For the Fiscal Year Ended September 30, 2018

	LEOSE	Total Nonmajor Governmental Funds
REVENUES		
Investment earnings	\$ 21	\$ 21
Intergovernmental	1,319	1,319
Total revenues	1,340	1,340
EXPENDITURES		
	-	-
Net change in fund balances	1,340	1,340
Fund balances - beginning	9,489	9,489
Fund balances - ending	\$ 10,829	\$ 10,829

PROPRIETARY FUND

ENTERPRISE FUND

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

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND SEWER
For the Fiscal Year Ended September 30, 2018

Page 1 of 2

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Over (Under) Budget
Operating revenues:					
Water sales and penalties	\$ 660,000	\$ 658,892	\$ 6,016	\$ 664,908	\$ 4,908
Sewer service charge	300,000	304,778	(992)	303,786	3,786
Water and sewer taps	20,000	28,170	-	28,170	8,170
Reconnect fees	6,000	4,615	-	4,615	(1,385)
Miscellaneous	1,000	12,794	(10,156)	2,638	1,638
Total operating revenues	<u>987,000</u>	<u>1,009,249</u>	<u>(5,132)</u>	<u>1,004,117</u>	<u>17,117</u>
Operating expenses:					
Salaries	216,000	207,982	4,785	212,767	(3,233)
Overtime	19,000	16,218	-	16,218	(2,782)
Payroll taxes	19,000	16,787	358	17,145	(1,855)
Worker's compensation	4,000	4,605	-	4,605	605
Medical	3,000	1,782	-	1,782	(1,218)
Retirement	17,000	13,788	2,020	15,808	(1,192)
Training	6,000	4,061	-	4,061	(1,939)
Computer equipment and software	4,000	2,909	1,540	4,449	449
Utilities	23,000	17,858	-	17,858	(5,142)
Telephone and cell	11,000	11,983	-	11,983	983
Engineer services	51,000	302	32,275	32,577	(18,423)
Miscellaneous contract services	43,000	2,760	20,385	23,145	(19,855)
Vehicle and equipment repair	12,000	16,389	-	16,389	4,389
Miscellaneous supplies and materials	33,000	45,713	-	45,713	12,713
Permits	4,000	3,230	-	3,230	(770)
Meter and pump repair	18,000	23,803	-	23,803	5,803
Uniforms	5,000	2,149	-	2,149	(2,851)
Water and sewer tests	17,000	13,822	-	13,822	(3,178)
Postage	5,000	4,129	-	4,129	(871)
Gas and oil	6,000	7,742	-	7,742	1,742
Chemicals	23,000	31,700	-	31,700	8,700
Pipes, clamps, meters	24,000	54,993	(36,677)	18,316	(5,684)
TRA buy - in agreement	2,000	1,188	-	1,188	(812)
Water purchases	361,000	361,715	-	361,715	715
TCEQ Fine	10,000	-	-	-	(10,000)
Capital outlay - CDBG	-	3,000	47,648	50,648	50,648
Capital outlay - other	916,000	13,282	114,856	128,138	(787,862)
Special projects	50,000	-	-	-	(50,000)
Depreciation and amortization	-	303,367	(303,367)	-	-
Total operating expenses	<u>1,902,000</u>	<u>1,187,257</u>	<u>(116,177)</u>	<u>1,071,080</u>	<u>(830,920)</u>
Operating income (loss)	<u>(915,000)</u>	<u>(178,008)</u>	<u>111,045</u>	<u>(66,963)</u>	<u>848,037</u>

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND SEWER
For the Fiscal Year Ended September 30, 2018

Page 2 of 2

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Over (Under) Budget
Nonoperating revenue (expenses):					
Investment earnings	\$ 1,000	\$ 14,563	\$ -	\$ 14,563	\$ 13,563
Contribution from component unit	19,000	18,000	-	18,000	(1,000)
Principal, interest and fiscal charges	(119,000)	(14,461)	(6,757)	(21,218)	97,782
Bond proceeds	900,000	-	-	-	(900,000)
Total nonoperating revenue (expenses)	<u>801,000</u>	<u>18,102</u>	<u>(6,757)</u>	<u>11,345</u>	<u>(789,655)</u>
Income (loss) before capital contributions and transfers	(114,000)	(159,906)	104,288	(55,618)	58,382
Capital contributions	-	112,938	(86,175)	26,763	26,763
Transfer in	100,000	1,212,238	-	1,212,238	1,112,238
Change in net position	<u>\$ (14,000)</u>	<u>\$ 1,165,270</u>	<u>\$ 18,113</u>	<u>\$ 1,183,383</u>	<u>\$ 1,197,383</u>

COMPONENT UNIT FINANCIAL STATEMENT AND SCHEDULE

PALMER ECONOMIC DEVELOPMENT CORPORATION

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

CITY OF PALMER, TEXAS
BALANCE SHEET
PALMER ECONOMIC DEVELOPMENT CORPORATION
September 30, 2018

ASSETS

Cash and cash equivalents	\$ 280,626
Due from primary government	35,161
Total assets	<u>\$ 315,787</u>

LIABILITIES

\$ -

FUND BALANCES

Restricted:

Economic development	315,787
Total fund balance	<u>315,787</u>
Total liabilities and fund balance	<u>\$ 315,787</u>

CITY OF PALMER, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
PALMER ECONOMIC DEVELOPMENT CORPORATION
For the Fiscal Year Ended September 30, 2018

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget - Over (Under) Budget
REVENUES					
Sales taxes	\$ 60,000	\$ 88,396	\$ (8,984)	\$ 79,412	\$ 19,412
Investment earnings	240	515	-	515	275
Total revenues	<u>60,240</u>	<u>88,911</u>	<u>(8,984)</u>	<u>79,927</u>	<u>19,687</u>
EXPENDITURES					
Current:					
Economic development	<u>222,410</u>	<u>19,560</u>	<u>-</u>	<u>19,560</u>	<u>(202,850)</u>
Total expenditures	<u>222,410</u>	<u>19,560</u>	<u>-</u>	<u>19,560</u>	<u>(202,850)</u>
Net change in fund balance	(162,170)	69,351	(8,984)	60,367	222,537
Fund balance - beginning	<u>-</u>	<u>246,436</u>	<u>-</u>	<u>246,436</u>	<u>246,436</u>
Fund balance - ending	<u><u>\$ (162,170)</u></u>	<u><u>\$ 315,787</u></u>	<u><u>\$ (8,984)</u></u>	<u><u>\$ 306,803</u></u>	<u><u>\$ 468,973</u></u>