

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended
September 30, 2007

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CITY OF WALLER, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Waller, 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 remaining fund information of the City of Waller, Texas (the "City"), as of September 30, 2007, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The management's discussion and analysis on pages 5 through 12, budgetary comparison information on page 43, and pension information on page 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Belt Harris & Associates, LLLP

Belt Harris & Associates, LLLP
Houston, Texas
September 22, 2008

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

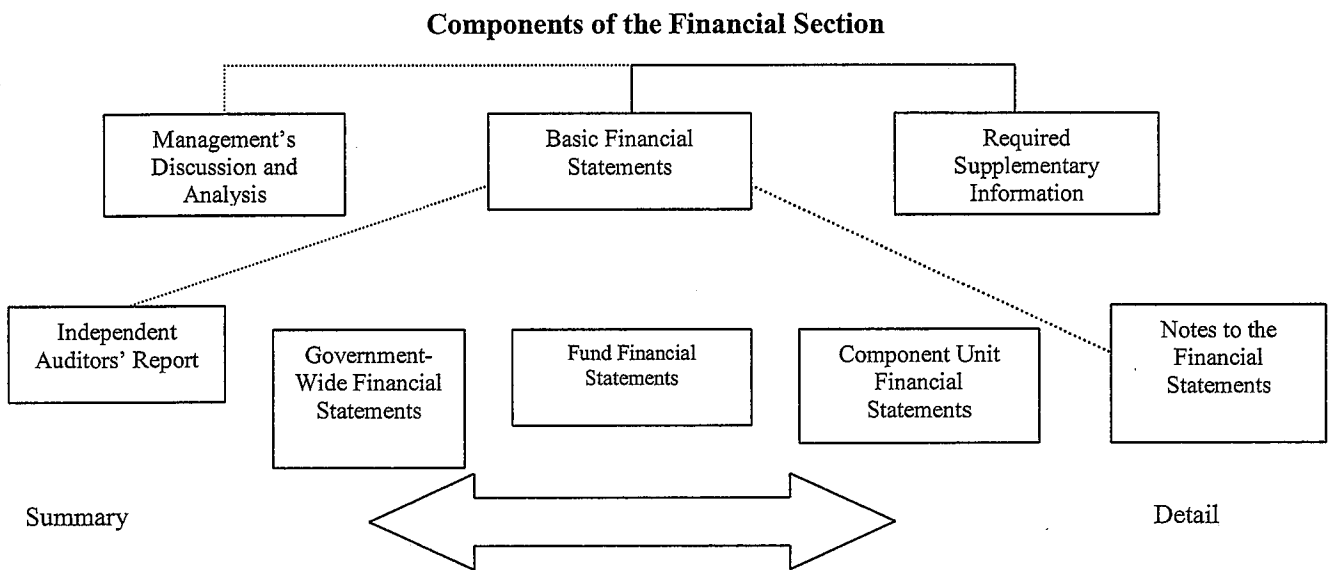
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CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
 September 30, 2007

The purpose of the Managements' Discussion and Analysis ("MD&A") is to give the readers an objective and easily readable analysis of the City of Waller's (the "City") financial activities for the year ending September 30, 2007. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The table of contents presented at the beginning of this report provides an overview of the structure of the City's report, as well as the page numbers where the respective sections can be located within the report, as more fully described below.



The Annual Financial Report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The new financial reporting model requires governments to present certain basic financial statements as well as a MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including public works and general government. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's gas, water, and sewer are reported here.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation being the City of Waller. They are usually segregated for specific activities or objectives. The City of Waller uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

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 the City's near-term financing requirements.

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

The City of Waller maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

The City adopts an annual appropriated budget for its general fund and debt service fund. A budgetary comparison schedule has been provided for the general fund and debt service fund to demonstrate compliance with this budget.

Proprietary Funds

The City maintains one type of proprietary fund, enterprise funds, to account for all "business like" activities. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. 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 respective enterprise funds.

Notes to Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and schedule of funding progress for the Texas Municipal Retirement System.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. Assets exceeded liabilities by \$3,902,918 at year end.

A large portion of the City's net assets, 37%, reflects its investments in capital assets (e.g. land, city hall, police station, drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

SUMMARY OF STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,166,011	\$ 1,022,944	\$ 1,474,151	\$ 1,248,858	\$ 2,640,162	\$ 2,271,802
Capital assets, net	370,915	484,495	3,375,270	3,558,042	3,746,185	4,042,537
Total Assets	1,536,926	1,507,439	4,849,421	4,806,900	6,386,347	6,314,339
Long-term liabilities	2,285,899	2,444,814	-	-	2,285,899	2,444,814
Other liabilities	84,088	61,958	113,442	124,870	197,530	186,828
Total Liabilities	2,369,987	2,506,772	113,442	124,870	2,483,429	2,631,642
Net Assets:						
Invested in capital assets, net of related debt	(1,914,984)	(1,960,319)	3,375,270	3,558,042	1,460,286	1,597,723
Restricted	183,929	179,732	-	-	183,929	179,732
Unrestricted	897,994	781,254	1,360,709	1,123,988	2,258,703	1,905,242
Total Net Assets	\$ (833,061)	\$ (999,333)	\$ 4,735,979	\$ 4,682,030	\$ 3,902,918	\$ 3,682,697

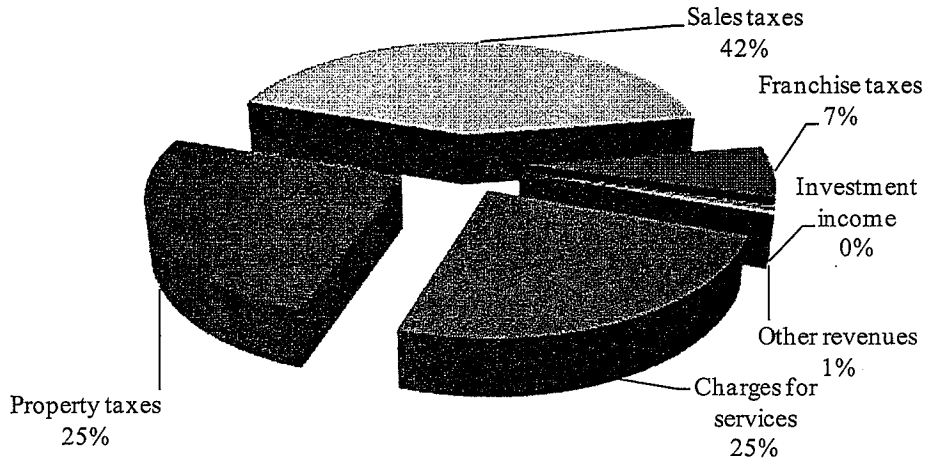
A portion of the primary government's net assets, 5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,258,703, may be used to meet the City's ongoing obligation to citizens and creditors.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

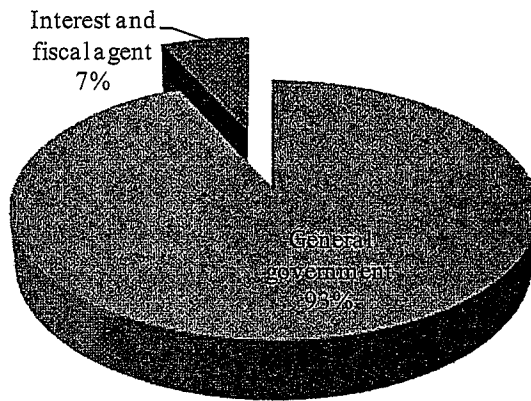
CHANGES IN NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 441,293	\$ 459,532	\$ 1,424,614	\$ 1,367,285	\$ 1,865,907	\$ 1,826,817
General revenues:						
Property taxes	450,519	419,110	-	-	450,519	419,110
Sales taxes	758,581	741,894	-	-	758,581	741,894
Franchise taxes	126,097	117,763	-	-	126,097	117,763
Investment income	6,624	968	9,124	6,705	15,748	7,673
Other revenues	12,781	51,423	-	-	12,781	51,423
Total Revenues	1,795,895	1,790,690	1,433,738	1,373,990	3,229,633	3,164,680
Expenses						
General government	1,519,689	1,409,723	-	-	1,519,689	1,409,723
Interest and fiscal agent fees on long-term debt	109,934	118,938	-	-	109,934	118,938
Gas	-	-	641,019	610,169	641,019	610,169
Water and sewer	-	-	738,770	654,886	738,770	654,886
Total Expenses	1,629,623	1,528,661	1,379,789	1,265,055	3,009,412	2,793,716
Increase (Decrease) in Net Assets Before Transfers	166,272	262,029	53,949	108,935	220,221	370,964
Transfers	-	2,506	-	(2,506)	-	-
Change in Net Assets	166,272	264,535	53,949	106,429	220,221	370,964
Beginning Net Assets	(999,333)	(1,263,868)	4,682,030	4,575,601	3,682,697	3,311,733
Ending Net Assets	\$ (833,061)	\$ (999,333)	\$ 4,735,979	\$ 4,682,030	\$ 3,902,918	\$ 3,682,697

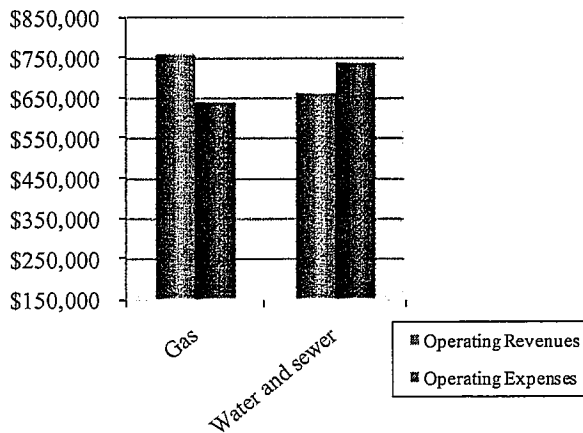
Governmental Revenues



Governmental Expenses



Business-Type Activities - Revenues and Expenses



CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

Governmental and Business-Type Activities

The City reported an increase in sales tax during the year due to the increased development within the City in Governmental Activities. The City also reported increases in natural gas consumption, which was passed onto to the consumer resulting in increases in revenue and expenses related to natural gas in business-type activities.

Debt related to the purchase of capital assets being recorded in the water/sewer and gas funds is being recorded as governmental activity debt rather than business-type activities debt. The result is a negative net asset balance within the governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure 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, the unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined fund balance of \$1,015,025. Of this, \$161,575 is designated for capital projects.

There was an increase in the combined fund balance of \$124,213 over the prior year. The increase was attributable to slightly higher revenues in every category.

The general fund reported an increase in fund balance due to the increase in all tax categories.

The debt service fund reported an increase in fund balance due to an increase in property tax revenue.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$370,915 and \$3,375,270, respectively, in a variety of capital assets and infrastructure net of accumulated depreciation.

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long-Term Debt - At the end of the current year, the City had total long-term debt of \$2,285,899.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is experiencing a period of growth. Property values are increasing, commercial development continues, property and sales tax revenues are expanding, and the City is thriving.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2007

Management for the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the timely preparation of financial statements in conformity with generally accepted accounting principles. Thus, in future fiscal periods, it is the Mayor and Council's objective to support staff in acquiring and implementing management and financial software (for fund accounting, utility billing, municipal court, and public safety) sufficient to satisfy these requirements, and meet the customer-service demands that accompany the City's expansion.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Secretary, City of Waller, P.O. Box 239, Waller, Texas, 77484.

BASIC FINANCIAL STATEMENTS

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CITY OF WALLER, TEXAS

STATEMENT OF NET ASSETS

September 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 888,201	\$ 1,303,021	\$ 2,191,222	\$ 729,935
Receivables (net of allowance for uncollectible)	277,810	97,378	375,188	43,451
Inventory	-	73,752	73,752	-
	1,166,011	1,474,151	2,640,162	773,386
Capital assets:				
Non-depreciable	39,799	87,624	127,423	-
Net depreciable capital assets	331,116	3,287,646	3,618,762	-
	370,915	3,375,270	3,746,185	-
Total Assets	1,536,926	4,849,421	6,386,347	773,386
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	67,088	29,427	96,515	122
Customer deposits	-	84,015	84,015	-
Accrued interest payable	17,000	-	17,000	-
	84,088	113,442	197,530	122
Noncurrent liabilities:				
Due within one year	162,865	-	162,865	-
Due in more than one year	2,123,034	-	2,123,034	-
	2,285,899	-	2,285,899	-
Total Liabilities	2,369,987	113,442	2,483,429	122
<u>Net Assets</u>				
Invested in capital assets, net of related debt	(1,914,984)	3,375,270	1,460,286	-
Restricted for:				
Debt service	183,929	-	183,929	-
Unrestricted	897,994	1,360,709	2,258,703	773,264
Total Net Assets	\$ (833,061)	\$ 4,735,979	\$ 3,902,918	\$ 773,264

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues Charges for Services
Primary Government		
Governmental Activities		
General government	\$ 1,519,689	\$ 441,293
Interest and fees on debt	109,934	-
Total Governmental Activities	1,629,623	441,293
Business-Type Activities		
Gas	641,019	761,397
Water and Sewer	738,770	663,217
Total Business-Type Activities	1,379,789	1,424,614
Total Primary Government	\$ 3,009,412	\$ 1,865,907
Component Unit		
Waller Economic Development Corporation	\$ 57,477	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (1,078,396)	\$ -	\$ (1,078,396)	\$ -
(109,934)	-	(109,934)	-
<u>(1,188,330)</u>	<u>-</u>	<u>(1,188,330)</u>	<u>-</u>
-	120,378	120,378	-
-	(75,553)	(75,553)	-
-	44,825	44,825	-
<u>(1,188,330)</u>	<u>44,825</u>	<u>(1,143,505)</u>	<u>-</u>
-	-	-	(57,477)
450,519	-	450,519	-
758,581	-	758,581	252,860
126,097	-	126,097	-
6,624	9,124	15,748	11,639
12,781	-	12,781	9,541
<u>1,354,602</u>	<u>9,124</u>	<u>1,363,726</u>	<u>274,040</u>
166,272	53,949	220,221	216,563
(999,333)	4,682,030	3,682,697	556,701
<u>\$ (833,061)</u>	<u>\$ 4,735,979</u>	<u>\$ 3,902,918</u>	<u>\$ 773,264</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2007

	General	Debt Service	Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 581,112	\$ 145,514	\$ 161,575	\$ 888,201
Receivables, net	222,303	55,507	-	277,810
Total Assets	\$ 803,415	\$ 201,021	\$ 161,575	\$ 1,166,011
Liabilities				
Accounts payable and accrued liabilities	\$ 66,996	\$ 92	\$ -	\$ 67,088
Deferred revenue	28,391	55,507	-	83,898
Total Liabilities	95,387	55,599	-	150,986
Fund Balances				
Reserved for:				
Debt service	-	145,422	-	145,422
Designated for Capital Projects funds	-	-	161,575	161,575
Unreserved and undesignated	708,028	-	-	708,028
Total Fund Balances	708,028	145,422	161,575	1,015,025
Total Liabilities and Fund Balances	\$ 803,415	\$ 201,021	\$ 161,575	
Adjustments for the Statement of Net Assets:				
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds.				
Capital assets - non-depreciable			\$ 39,799	
Capital assets - net depreciable			331,116	
				370,915
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.				
				83,898
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.				
Accrued interest payable			\$ (17,000)	
Non-current liabilities due in one year			(162,865)	
Non-current liabilities due in more than one year			(2,123,034)	
				(2,302,899)
Net Assets of Governmental Activities				\$ (833,061)

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2007

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 202,635	\$ 253,160	\$ -	\$ 455,795
Sales tax	758,581	-	-	758,581
Franchise and local taxes	126,097	-	-	126,097
Licenses and permits	46,622	-	-	46,622
Fines and forfeitures	38,267	-	-	38,267
Charges for services	356,404	-	-	356,404
Investment income	896	5,576	152	6,624
Other revenue	9,981	-	2,800	12,781
Total Revenues	1,539,483	258,736	2,952	1,801,171
Expenditures				
Current:				
General Government	1,415,666	-	9,358	1,425,024
Debt Service:				
Principal	-	140,000	-	140,000
Interest and fiscal charges	-	111,934	-	111,934
Total Expenditures	1,415,666	251,934	9,358	1,676,958
Net Change in Fund Balance	123,817	6,802	(6,406)	124,213
Beginning fund balances	584,211	138,620	167,981	890,812
Ending Fund Balances	\$ 708,028	\$ 145,422	\$ 161,575	\$ 1,015,025

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	124,213
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		-
Depreciation expense		(113,580)
<p>Revenues that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue		(5,276)
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are 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.</p>		
Principal expenditures		158,915
<p>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.</p>		
Accrued interest		2,000
Change in Net Assets of Governmental Activities	\$	<u>166,272</u>

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2007

	<u>Gas</u>	<u>Water and Sewer</u>	<u>Total</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 502,443	\$ 800,578	\$ 1,303,021
Receivables, net	31,463	65,915	97,378
Inventory	39,490	34,262	73,752
Total Current Assets	<u>573,396</u>	<u>900,755</u>	<u>1,474,151</u>
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	-	87,624	87,624
Net depreciable capital assets	130,827	3,156,819	3,287,646
Total Noncurrent Assets	<u>130,827</u>	<u>3,244,443</u>	<u>3,375,270</u>
Total Assets	<u>704,223</u>	<u>4,145,198</u>	<u>4,849,421</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	11,962	17,465	29,427
Customer deposits	33,820	50,195	84,015
Total Current Liabilities	<u>45,782</u>	<u>67,660</u>	<u>113,442</u>
<u>Net Assets</u>			
Invested in capital assets	130,827	3,244,443	3,375,270
Unrestricted	527,614	833,095	1,360,709
Total Net Assets	<u>\$ 658,441</u>	<u>\$ 4,077,538</u>	<u>\$ 4,735,979</u>

See Notes to Financial Statements.

CITY OF WALLER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended September 30, 2007

	Gas	Water and Sewer	Total
<u>Operating Revenues</u>			
Charges for services	\$ 760,976	\$ 645,999	\$ 1,406,975
Other services	421	17,218	17,639
Total Operating Revenues	761,397	663,217	1,424,614
 <u>Operating Expenses</u>			
Costs of sales and services	623,274	611,854	1,235,128
Depreciation	17,745	126,916	144,661
Total Operating Expenses	641,019	738,770	1,379,789
Operating Income	120,378	(75,553)	44,825
 <u>Nonoperating Revenues</u>			
Investment income	5,666	3,458	9,124
Total Nonoperating Revenues	5,666	3,458	9,124
Change in Net Assets	126,044	(72,095)	53,949
Beginning net assets	532,397	4,149,633	4,682,030
Ending Net Assets	\$ 658,441	\$ 4,077,538	\$ 4,735,979

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2007

	Gas	Water and Sewer	Total
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 736,903	\$ 630,612	\$ 1,367,515
Payments to suppliers and employees	(599,972)	(642,983)	(1,242,955)
Net Cash Provided (Used) by Operating Activities	136,931	(12,371)	124,560
<u>Cash Flows from Investing Activities</u>			
Interest on investments	5,666	3,458	9,124
Net Cash Provided by Investing Activities	5,666	3,458	9,124
Net Increase (Decrease) in Cash and Cash Equivalents	142,597	(8,913)	133,684
Beginning cash and cash equivalents	359,846	\$ 809,491	1,169,337
Ending Cash and Cash Equivalents	\$ 502,443	\$ 800,578	\$ 1,303,021
Reconciliation of Operating Income			
to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ 120,378	\$ (75,553)	\$ 44,825
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	17,745	126,916	144,661
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(24,494)	(32,605)	(57,099)
Inventories	2,533	1,068	3,601
Increase (Decrease) in:			
Accounts payable and accrued liabilities	9,980	(39,774)	(29,794)
Customer deposits	10,789	7,577	18,366
Net Cash Provided (Used) by Operating Activities	\$ 136,931	\$ (12,371)	\$ 124,560
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ -	\$ -	\$ -

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Waller, Texas (the "City") was incorporated under the laws of the State of Texas on October 16, 1947. The City is a general law city that operates under a council-mayor form of government. The City Council is the principal legislative body of the City.

The City provides the following services: public safety to include police and volunteer fire department, highway and streets, sanitation, culture-recreation, public improvements, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Waller Economic Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Waller Economic Development Corporation

Waller Economic Development Corporation (WEDC) has been included in the reporting entity as a discretely presented component unit.

The Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the City Secretary.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Requirements of the Statement include:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City’s activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales, and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government and public works. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Funds

The capital projects funds are used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The expansions capital projects fund is reported as a nonmajor fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

The proprietary fund types used by the City include the following:

Enterprise Funds

The enterprise funds are used to account for the operations that provide gas, water and sewer operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise funds, gas and water/sewer funds, are considered major funds for reporting purposes.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, 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. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

The statements of net assets, statements of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31 "Accounting and Reporting for Certain Investments and External Investment Pools", the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statement. If the transactions are between the primary government and its component unit, these receivable and payables are classified as "due to/from component unit/primary government". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

All trade receivables are shown net of an allowance for uncollectibles.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

Property taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at 1% per month, but the penalty remains at a maximum of 12% until paid.

A penalty of 6% and interest of 1% is added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12% on July 1 of each year, with interest continuing to increase at 1% per month until the account is paid. An additional penalty of 15% is added in July for attorney costs. The City allows discounts for payments made in October, November, and December every year.

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased (i.e., the first-in/first-out (FIFO) method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) and are recognized as expenditures when utilized.

4. 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. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles and equipment	5 to 10 years
System infrastructure	30 to 40 years
Buildings	20 to 50 years

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of bonds payable and capital lease obligations.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

6. Fund Equity

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

7. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental states that “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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Another element of that reconciliation states that “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 governmental funds.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Credit risk. State law and the City’s investment policy limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

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. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2007, market values of pledged securities and FDIC insurance totaled \$2,754,610 and bank balances were \$2,438,977. However, the City reported \$100,000 not covered by securities in excess of FDIC insurance.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Gas</u>	<u>Water/Sewer</u>
Property taxes	\$ 28,391	\$ 55,507	\$ -	\$ -
Sales taxes	130,352	-	-	-
Accounts	34,591	-	31,463	65,915
Franchise	28,969	-	-	-
	<u>\$ 222,303</u>	<u>\$ 55,507</u>	<u>\$ 31,463</u>	<u>\$ 65,915</u>

C. Capital Assets

A summary of changes in capital assets for governmental activities for the year end were as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 39,799	\$ -	\$ -	\$ 39,799
Total capital assets not being depreciated	<u>39,799</u>	<u>-</u>	<u>-</u>	<u>39,799</u>
Other capital assets:				
Infrastructure	1,507,395	-	-	1,507,395
Buildings	315,500	-	-	315,500
Vehicles	117,835	-	-	117,835
Equipment	229,629	-	-	229,629
Total other capital assets	<u>2,170,359</u>	<u>-</u>	<u>-</u>	<u>2,170,359</u>
Less accumulated depreciation for:				
Infrastructure	(1,281,286)	(75,370)	-	(1,356,656)
Buildings	(253,920)	(8,648)	-	(262,568)
Vehicles	(80,828)	(5,562)	-	(86,390)
Equipment	(109,629)	(24,000)	-	(133,629)
Total accumulated depreciation	<u>(1,725,663)</u>	<u>(113,580)</u>	<u>-</u>	<u>(1,839,243)</u>
Other capital assets, net	444,696	(113,580)	-	331,116
Totals	<u>\$ 484,495</u>	<u>\$ (113,580)</u>	<u>\$ -</u>	<u>\$ 370,915</u>
			Less associated debt	(2,285,899)
			Invested in capital assets, net of related debt	<u>\$ (1,914,984)</u>

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

General government	<u>\$ 113,580</u>
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CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 87,624	\$ -	\$ -	\$ 87,624
Total capital assets not being depreciated	<u>87,624</u>	<u>-</u>	<u>-</u>	<u>87,624</u>
Other capital assets:				
Water/sewer system	4,717,516	-	-	4,717,516
Gas system	496,502	-	-	496,502
Equipment	133,377	-	-	133,377
Total other capital assets	<u>5,347,395</u>	<u>-</u>	<u>-</u>	<u>5,347,395</u>
Less accumulated depreciation for:				
Water/sewer system	(1,448,727)	(116,384)	-	(1,565,111)
Gas system	(363,123)	(15,437)	-	(378,560)
Equipment	(103,238)	(12,840)	-	(116,078)
Total accumulated depreciation	<u>(1,915,088)</u>	<u>(144,661)</u>	<u>-</u>	<u>(2,059,749)</u>
Other capital assets, net	<u>3,432,307</u>	<u>(144,661)</u>	<u>-</u>	<u>3,287,646</u>
Totals	<u>\$ 3,519,931</u>	<u>\$ (144,661)</u>	<u>\$ -</u>	<u>\$ 3,375,270</u>

Depreciation was charged to business-type functions as follows:

Gas	\$ 126,916
Water/Sewer	<u>17,745</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 144,661</u>

CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

D. Long-Term Debt

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 1,435,000	\$ -	\$ 40,000	\$ 1,395,000	* \$ 40,000
Certificates of obligation	895,000	-	100,000	795,000	* 100,000
Obligations under capital leases	114,814	-	18,915	95,899	* 22,865
Total Governmental Activities	\$ 2,444,814	\$ -	\$ 158,915	\$ 2,285,899	\$ 162,865
Long-term liabilities due in more than one year				\$ 2,123,034	

* Debt associated with capital assets

Long-term debt at year ended was comprised of the following debt issues:

Description	Interest Rates	Balance
Certificates of Obligations		
Series 1998	4.5 - 5.375%	\$ 795,000
Permanent Improvement Bonds		
Series 2004	1.75 - 4.40%	1,395,000
Total General Long-Term Debt		\$ 2,190,000

Year Ending Sept. 30	Capital Leases		
	Principal	Interest	Total
2008	\$ 22,865	\$ 4,974	\$ 27,839
2009	24,276	3,562	27,838
2010	25,770	2,068	27,838
2011	22,988	513	23,501
Total	\$ 95,899	\$ 11,117	\$ 107,016

Equipment acquired under current capital lease obligations was a total of \$98,070 net of accumulated depreciation.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

The annual requirements to amortize debt issues outstanding at year ending were as follows:

Year Ending Sept. 30	Long-Term Debt				Total
	Certificates of		General Obligation		
	Obligation		Bonds		
	Principal	Interest	Principal	Interest	
2008	\$ 110,000	\$ 41,400	\$ 40,000	\$ 63,633	\$ 255,033
2009	125,000	35,900	30,000	62,432	253,332
2010	125,000	29,525	40,000	61,458	255,983
2011	135,000	23,025	35,000	60,057	253,082
2012	150,000	15,938	30,000	58,745	254,683
2013	150,000	8,062	40,000	57,545	255,607
2014	-	-	165,000	55,905	220,905
2015	-	-	145,000	48,810	193,810
2016	-	-	125,000	42,285	167,285
2017	-	-	125,000	36,535	161,535
2018	-	-	120,000	30,660	150,660
2019	-	-	100,000	24,900	124,900
2020	-	-	100,000	20,000	120,000
2021	-	-	100,000	15,000	115,000
2022	-	-	100,000	10,000	110,000
2023	-	-	100,000	5,000	105,000
Total	\$ 795,000	\$ 153,850	\$1,395,000	\$ 652,965	\$ 2,996,815

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

E. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balance reserved or designated recognized by the City:

Debt Service Fund		
Reserved for debt service	\$	145,422
Nonmajor Other Governmental Funds		
Designated for construction	\$	161,575

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,539 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

significantly reduced insurance coverage or had settlements, which exceeded coverage amounts for the past three fiscal years.

B. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 5%, and the City's matching ratio is currently one to one, both as adopted by City Council. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2007

Future Funding Requirements

In early December 2007 the TMRS Board of Trustees met and adopted actuarial changes that include a change from the Unit Credit actuarial cost method to the Projected Unit Credit actuarial cost method for all TMRS city plans as well as a closed amortization period of 30 years. The effect of these changes will result in an increase in city contribution rates for most Texas cities. These changes are intended to help the TMRS system remain well-funded, to preserve members' benefits, and to give cities a more complete picture of the cost of benefits currently adopted. While the impact of TMRS changes has increased the rates for most cities, the City's contribution rate is decreased to 4.32%.

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

All assumptions for the 12/31/06 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Unit Credit
Amoritization Method	Level % of Payroll
Remaining Amortization Period	25 Years - Open period
Asset Valuation Method	Amortized cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost of Living Adjustments	None

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual Req. Contrib. (ARC)	\$ 36,794	\$ 32,983	\$ 35,554
Contributions Made	\$ 36,794	\$ 32,983	\$ 35,554
NPO at the End of Period	\$ -	\$ -	\$ -

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF WALLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2007
With Comparative Totals for the Year Ended September 30, 2006

	2007			
	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)	2006 Actual
Revenues				
Property taxes	\$ 207,460	\$ 202,635	\$ (4,825)	\$ 182,152
Sales tax	1,020,000	758,581	(261,419)	741,894
Franchise and other taxes	122,000	126,097	4,097	117,763
Licenses and permits	22,000	46,622	24,622	26,727
Fines and forfeitures	60,000	38,267	(21,733)	115,303
Charges for services	313,600	356,404	42,804	317,502
Investment income	700	896	196	787
Other revenue	15,000	9,981	(5,019)	51,423
Total Revenues	<u>1,760,760</u>	<u>1,539,483</u>	<u>(221,277)</u>	<u>1,553,551</u>
Expenditures				
Current:				
General Government	1,732,020	1,415,666	316,354	1,366,886
Debt service	17,540	-	17,540	6,960
Total Expenditures	<u>1,749,560</u>	<u>1,415,666</u>	<u>333,894</u>	<u>1,373,846</u>
Other Financing Sources				
Transfers in	-	-	-	2,506
Lease proceeds	-	-	-	120,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,506</u>
Change in Fund Balance	<u>\$ 11,200</u>	<u>\$ 123,817</u>	<u>\$ 112,617</u>	<u>\$ 302,211</u>
Beginning fund balance		<u>584,211</u>		
Ending Fund Balance		<u>\$ 708,028</u>		

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF WALLER, TEXAS
SCHEDULE OF FUNDING PROGRESS-
TEXAS MUNICIPAL RETIREMENT SYSTEM

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Actuarial Valuation Date	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial Value of Assets	\$ 1,170,058	\$ 1,143,807	\$ 1,040,494	\$ 1,025,918
Actuarial Accrued Liability	\$ 1,330,651	\$ 1,287,176	\$ 1,173,282	\$ 1,151,658
Percentage Funded	87.9%	88.9%	88.7%	89.1%
Unfunded Actuarial				
Accrued Liability	\$ 160,593	\$ 143,369	\$ 132,788	\$ 125,740
Annual Covered Payroll	\$ 688,015	\$ 676,673	\$ 679,634	\$ 643,488
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	23.3%	21.2%	19.5%	19.5%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 36,794	\$ 32,983	\$ 35,554	\$ 33,506
Contributions Made	\$ 36,794	\$ 32,983	\$ 35,554	\$ 33,506
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -

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SCHEDULES

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CITY OF WALLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2007
 With Comparative Totals for the Year Ended September 30, 2006

	2007			2006 Actual
	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)	
Revenues				
Property taxes	\$ 261,775	\$ 253,160	\$ (8,615)	249,022
Investment income	-	5,576	5,576	-
Total Revenues	<u>261,775</u>	<u>258,736</u>	<u>(3,039)</u>	<u>249,022</u>
Expenditures				
Principal	140,000	140,000	-	135,000
Interest and fiscal charges	111,975	111,934	41	117,604
Total Expenditures	<u>251,975</u>	<u>251,934</u>	<u>41</u>	<u>252,604</u>
Revenues Over (Under) Expenditures	<u>\$ 9,800</u>	6,802	<u>\$ (2,998)</u>	<u>\$ (3,582)</u>
Beginning fund balance		<u>138,620</u>		
Ending Fund Balance		<u>\$ 145,422</u>		